

IN THE UNITED STATES BANKRUPTCY COURT
FOR THE EASTERN DISTRICT OF CALIFORNIA
SACRAMENTO DIVISION

In re:	Case No.: 08-25145
JOHN D. REYNEN and JUDITH M. REYNEN,	Chapter 11
Debtors.	MLG-022

In re:	Case No.: 08-34878
CHRISTO BARDIS and SARA BARDIS,	Chapter 11
Debtors.	MHK-009

**DISCLOSURE STATEMENT FOR DEBTORS'
FIRST AMENDED JOINT PLAN OF REORGANIZATION
(Dated May 29, 2009)**

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1 JOHN D. REYNEN and JUDITH M. REYNEN, the debtors-in-possession in the Reynen
2 Case (the “Reynen Debtors”),¹ and CHRISTO BARDIS AND SARA BARDIS, the debtors-in-
3 possession in the Bardis Case (the “Bardis Debtors”), present this disclosure statement (the
4 “Disclosure Statement”) for the purpose of providing parties in interest with information pertinent to
5 the Debtors’ Joint Plan of Reorganization (as it may be amended or modified hereafter, the “Plan”)
6 filed on April 9, 2009 by the Reynen Debtors and the Bardis Debtors (collectively, the “Debtor
7 Group”) jointly.

8 **ALL CREDITORS AND HOLDERS OF CLAIMS AGAINST THE DEBTOR GROUP**
9 **ARE ENCOURAGED TO READ THIS DISCLOSURE STATEMENT AND THE PLAN IN**
10 **THEIR ENTIRETIES. PLAN SUMMARIES AND STATEMENTS MADE IN THIS**
11 **DISCLOSURE STATEMENT ARE QUALIFIED IN THEIR ENTIRETIES BY REFERENCE**
12 **TO THE PLAN, OTHER EXHIBITS ANNEXED HERETO, EXHIBITS TO THE PLAN AND**
13 **OTHER DOCUMENTS REFERENCED AS FILED WITH THE BANKRUPTCY COURT**
14 **PRIOR TO OR CONCURRENT WITH THE FILING OF THIS DISCLOSURE**
15 **STATEMENT. ALL CREDITORS AND HOLDERS OF CLAIMS IN THE DEBTOR**
16 **GROUP’S CASES SHOULD READ CAREFULLY AND CONSIDER FULLY THE “RISK**
17 **FACTORS” SECTION HEREOF BEFORE VOTING FOR OR AGAINST THE PLAN.**

18 **THE DEBTOR GROUP BELIEVES THAT CONFIRMATION OF THE PLAN IS IN**
19 **THE BEST INTERESTS OF THE ESTATES AND ALL OF THEIR RESPECTIVE**
20 **CREDITORS. THE PLAN IS THE PRODUCT OF EXTENSIVE AND COMPREHENSIVE**
21 **NEGOTIATIONS WITH THE CREDITORS’ COMMITTEE APPOINTED BY THE**
22 **BANKRUPTCY COURT IN THE REYNEN CASE, AND THE CREDITORS’ COMMITTEE**
23 **HAS RECOMMENDED THAT ALL CREDITORS VOTE TO ACCEPT THE PLAN.**

24 **THE BANKRUPTCY COURT HAS APPROVED THIS DISCLOSURE STATEMENT,**
25 **WHICH APPROVAL DOES NOT CONSTITUTE A DETERMINATION OF THE MERITS**
26 **OF THE PLAN DESCRIBED IN THIS DISCLOSURE STATEMENT. THE APPROVAL OF**
27 **THIS DISCLOSURE STATEMENT MEANS THAT THE BANKRUPTCY COURT HAS**
28 **FOUND THAT THIS DISCLOSURE STATEMENT CONTAINS ADEQUATE**
INFORMATION TO PERMIT CREDITORS AND HOLDERS OF CLAIMS IN THE
DEBTOR GROUP’S ESTATES TO MAKE A REASONABLY INFORMED DECISION IN
EXERCISING THEIR RIGHT TO VOTE UPON THE PLAN.

THIS DISCLOSURE STATEMENT HAS NEITHER BEEN APPROVED NOR
DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION (THE “SEC”),
ANY STATE SECURITIES COMMISSION OR ANY OTHER REGULATORY
AUTHORITY, NOR HAS THE SEC OR SUCH OTHER COMMISSION OR AUTHORITY
PASSED UPON THE ACCURACY OR ADEQUACY OF THE STATEMENTS CONTAINED
HEREIN.

¹ All capitalized terms used in this Disclosure Statement, unless otherwise defined herein, are intended to have the meanings ascribed to them in the Plan.

1 THE DEBTOR GROUP IS UNABLE TO WARRANT OR REPRESENT THAT ALL
2 INFORMATION CONTAINED IN THIS DISCLOSURE STATEMENT OR IN EXHIBITS
3 ATTACHED HERETO IS WITHOUT ERROR, ALTHOUGH ALL REASONABLE
4 EFFORTS UNDER THE CIRCUMSTANCES HAVE BEEN MADE TO BE ACCURATE. IN
5 PARTICULAR, WITHOUT LIMITING THE GENERALITY OF THE FOREGOING, THE
6 DEBTOR GROUP NOTES THAT THE ASSUMPTIONS AND PROJECTIONS
7 REFERENCED HEREIN REGARDING FUTURE RESULTS, REVENUES AND INCOME
8 OF THE ESTATES, AND THE TIMING AND FEASIBILITY OF DISTRIBUTIONS TO
9 CREDITORS, ARE ONLY PREDICTIONS OF FUTURE EVENTS, AND THEREFORE
10 THERE CAN BE NO ASSURANCES THAT THE ASSUMPTIONS WILL IN FACT
11 MATERIALIZE OR THAT THE PROJECTED EVENTS WILL IN FACT OCCUR AS
12 PREDICTED.

13 INTRODUCTION

14 A. Filing of the Plan

15 The Reynen Debtors filed their voluntary petitions under chapter 11 of Title 11 of the United
16 States Code (the “Bankruptcy Code”) on April 23, 2008 (the “Reynen Petition Date”) in the
17 Bankruptcy Court. The Bardis Debtors filed their voluntary petitions under chapter 11 of the
18 Bankruptcy Code on October 15, 2008 (the “Bardis Petition Date”) in the Bankruptcy Court. The
19 Debtor Group has remained in possession of respective Estate assets since then, no trustee having
20 been appointed in either case.

21 The Debtor Group has filed the Plan and this Disclosure Statement with the Bankruptcy Court
22 pursuant to the provisions of Section 1125 of the Bankruptcy Code, for distribution to holders of
23 Claims against the assets of either the Reynen Debtors, the Bardis Debtors or both, in connection
24 with (i) the solicitation of acceptances of the Plan, and (ii) the hearing to consider confirmation of the
25 Plan (the “Confirmation Hearing”) to be scheduled by the Bankruptcy Court.

26 Attached as exhibits to this Disclosure Statement are copies of the following:

- 27 • the Plan (**Exhibit “A”**);
- 28 • the Order of the Bankruptcy Court approving this Disclosure Statement and
establishing voting and tabulation procedures (**Exhibit “B”**);
- the Debtor Group’s projections of plan distributions and liquidation alternative
in Reynen Estate (**Exhibit “C”**);
- the Debtor Group’s projections of plan distributions and liquidation alternative
in Bardis Estate (**Exhibit “D”**);

- the most recent monthly operating report filed by the Reynen Debtors (**Exhibit "E"**);
- the most recent monthly operating report filed by the Bardis Debtors (**Exhibit "F"**);
- an analysis of general unsecured claims against each of the Estates (**Exhibit "G"**)
- the curriculum vitae of Hank Spacone, the proposed Plan Agent (**Exhibit "H"**); and
- a schedule of protective prepetition transfers by the Reynen Debtors to insiders, accompanied by intended dispositions (**Exhibit "I"**).

In addition, a ballot (the "Ballot") for the acceptance or rejection of the Plan is enclosed with the Disclosure Statement, for use by those holders of Claims that are entitled to vote to accept or reject the Plan.

After notice and a hearing, the Bankruptcy Court has approved this Disclosure Statement as containing adequate information of a kind and in sufficient detail to enable hypothetical, reasonable investors typical of the Debtor Group's creditors and interest holders to make an informed judgment whether to accept or reject the Plan. Each creditor and holder of a Claim in either the Reynen Estate or the Bardis Estate that is entitled to vote to accept or reject the Plan should read this Disclosure Statement and the Plan in their entirety before voting on the Plan.

B. Right to Vote on the Plan

Pursuant to the provisions of the Bankruptcy Code, only holders of allowed claims in classes of claims that are impaired under the terms and provisions of a chapter 11 plan are entitled to vote to accept or reject that plan. Holders of Allowed Claims in classes of claims that are unimpaired under the terms and provisions of a chapter 11 plan are conclusively presumed to have accepted the plan and therefore are not entitled to vote with respect to that plan. Holders of Claims within Classes A1, A2, B1.1, B1.12, B2.1, B2.2, B2.3, B2.5, B2.8 and B2.9 of the Plan are unimpaired, are conclusively presumed to have accepted the Plan, and therefore do not have the right to vote on the Plan. Holders

1 of Claims in Classes B1.2, B1.3, B1.4, B1.5, B1.6, B1.7, B1.8, B1.9, B1.10, B1.11, B2.4, B2.6, B2.7,
2 C1, C2, D1 and D2 are impaired and therefore are entitled to vote to accept or reject the Plan.

3 The Bankruptcy Code defines “acceptance” of a plan by a class of claims as acceptance by
4 creditors in that class that hold at least two-thirds in dollar amount, and more than one-half in
5 number, of claims within that class that cast ballots for acceptance or rejection of the plan. The
6 Bankruptcy Code defines “acceptance” of a plan by a class of interests as acceptance by interest
7 holders in that class that hold at least two-thirds in amount of the allowed interests in that class that
8 cast ballots for acceptance or rejection of the plan. For a more complete description of the
9 requirements for confirmation of the Plan, see Section VI, “Confirmation and Consummation
10 Procedure.”

11 If a Class of Claims rejects the Plan or is deemed to reject the Plan, the Debtor Group has the
12 right, and intends, to request confirmation of the Plan pursuant to the “cram-down” provisions of
13 Section 1129(b) of the Bankruptcy Code. Section 1129(b) permits the confirmation of a plan
14 notwithstanding the non-acceptance of such plan by one or more impaired classes of claims or equity
15 interests if the proponent thereof complies with the provisions of that section. Under that section, a
16 plan may be confirmed by a bankruptcy court if it does not “discriminate unfairly” and is “fair and
17 equitable” with respect to each non-accepting class. For a more detailed description of the
18 requirements for confirmation of a nonconsensual plan, see Section VI(B)(2), “Confirmation and
19 Consummation Procedure -- Unfair Discrimination and Fair and Equitable Tests.”

20 The Debtor Group believes that through the Plan, creditors will obtain a greater recovery upon
21 their claims than the recovery that would be available if the assets of the Debtor Group were
22 liquidated under chapter 7 of the Bankruptcy Code. Therefore, the Debtor Group believes that after
23 carefully reviewing the Plan and this Disclosure Statement, including the Exhibits, each holder of an
24 Allowed Claim that is entitled to vote with respect to the Plan should vote to accept the Plan. As
25 noted above, the Official Creditors’ Committee appointed in the Reynen Case (the “Committee” or
26 the “Creditors’ Committee”), having negotiated at length with the Debtor Group on behalf of general
27 unsecured creditors, supports the confirmation of the Plan.

28 **C. Voting Instructions**

1 If you are entitled to vote to accept or reject the Plan, the Ballot is enclosed for the purpose of
2 voting on the Plan. If you hold a Claim in more than one Class and you are entitled to vote Claims in
3 more than one Class, you may submit separate ballots that must be used for each separate Class of
4 Claims. In any event, please vote and return your ballot(s) to:

5 REYNEN PLAN OF REORGANIZATION
6 c/o Meyers Law Group, P.C.
7 Attn: Edie Walters, Esq.
44 Montgomery Street, Suite 1010
San Francisco, CA 94104

8 DO NOT RETURN YOUR NOTES OR SECURITIES WITH YOUR BALLOT. TO BE
9 COUNTED, YOUR BALLOT INDICATING ACCEPTANCE OR REJECTION OF THE PLAN
10 MUST BE RECEIVED NO LATER THAN THE TIME AND DATE STATED ON THE BALLOT.

11 If you are entitled to vote on the Plan and did not receive a Ballot, received a damaged Ballot
12 or lost your Ballot, or if you have any questions concerning the Disclosure Statement, the Plan or the
13 procedures for voting on the Plan, please call Edie Walters, Esq., one of the Debtor Group's counsel,
14 at (415) 362-7500, ext. 225.

15 **D. Confirmation Hearing**

16 Pursuant to Section 1128 of the Bankruptcy Code, the Confirmation Hearing will be
17 commenced on the date set forth in documents provided with this Disclosure Statement before the
18 Honorable Christopher M. Klein, United States Bankruptcy Judge, at the United States Bankruptcy
19 Court for the Eastern District of California, Sacramento Division, 501 "I" Street, Sacramento,
20 California. The Bankruptcy Court has directed that objections, if any, to confirmation of the Plan be
21 served and filed so that they are received on or before the deadline stated in such documents, in the
22 manner described below in Section VI(B), "Confirmation and Consummation Procedure -- The
23 Confirmation Hearing." The Confirmation Hearing may be adjourned from time to time by the
24 Bankruptcy Court without further notice except for the announcement of the adjournment date made
25 at the Confirmation Hearing or at any subsequent adjourned Confirmation Hearing.

II. DESCRIPTION OF THE PLAN

A. Introduction

The Plan is the product of extensive efforts by the Debtor Group to formulate a plan that maximizes recoveries for creditors and provides for distributions to creditors to be made as early as possible. It is also the product of successful and detailed negotiations with the Creditors' Committee. Those negotiations consumed many months of laborious discussions and analyses among the Committee, the Debtor Group, related entities and their respective counsel and financial advisors. Many iterations of an extensive and comprehensive term sheet were exchanged and debated among the parties, supported by extended research and analysis by the Committee's financial advisor and consideration of multiple issues and competing interests, and in the end, the Committee and the Debtor Group were able to reach agreement upon the terms of the Plan so that it can proceed with the full support of both, in a manner intended to maximize recoveries for creditors of both Estates. Based upon those successful negotiations, this Disclosure Statement is accompanied by a letter sent on behalf of the Committee expressing its full and strong support for the Plan and urging creditors holding general unsecured claims to timely accept the Plan through use of the enclosed Ballot.

Under the Plan, the Debtor Group estimates that the Plan Agent will pay between approximately 2.8% and approximately 6.1% of all Allowed General Unsecured Claims in the Reynen Case, and between approximately 2.2% and approximately 5.2% of all Allowed General Unsecured Claims in the Bardis Case, over time, using the proceeds of the Debtor Group's tax refunds, as well as cash generated by the sale of most of the Debtor Group's non-exempt assets and the recovery of avoidable transfers, as explained in more detail below. The Debtor Group's ability to preserve the value of the estate is premised on the ability to retain tax refunds and on substantial cooperation and efforts by the Debtor Group that have been made during the course of the Chapter 11 Cases and will continue to be made throughout the remainder of the cases, with post-confirmation incentive compensation paid to the Debtor Group pursuant to formulae as negotiated with the Creditors' Committee.

B. Classification and Treatment of Claims

The Plan designates approximately 30 Classes of Claims (including subclasses). Those

Classes take into account the differing nature and priority of the various classified Claims under the Bankruptcy Code.

The following table briefly summarizes the classification and treatment of all Claims under the Plan and the consideration distributable on account of such Claims under the Plan. The information set forth in the following table is for convenience of reference only, and each holder of a Claim should refer to the Plan for a full understanding of the classification and treatment of Claims provided for under the Plan. Claims will receive designated treatment within a Class only to the extent Allowed within that class. The Claim allowance procedure is an ongoing process and the actual amount of Allowed Claims may vary from the estimates. For a complete description of the risks associated with the recoveries provided under the Plan, see Section VII, "Certain Risk Factors To Be Considered."

<u>CLASS</u>	<u>CLAIMS</u>	<u>SUMMARY OF TREATMENT</u>
Nonclassified	Reynen Administrative Expenses	Paid in full by Plan Agent on latest of (a) Effective Date; (b) when due or such later date as approved by the claimant; or (c) when allowed by Final Order.
Nonclassified	Reynen Priority Tax Claims	Paid in full by Plan Agent in up to four equal, annual payments, with interest at applicable nonbankruptcy rate
Nonclassified	Bardis Administrative Expenses	Paid in full by Plan Agent on latest of (a) Effective Date; (b) when due or such later date as approved by the claimant; or (c) when allowed by Final Order.
Nonclassified	Bardis Priority Tax Claims	Paid in full by Plan Agent in up to four equal, annual payments, with interest at applicable nonbankruptcy rate
Class A1	Reynen Priority Claims	Paid in full by Plan Agent on latest of (a) Effective Date; (b) when due or such later date as approved by the claimant; or (c) when allowed by Final Order.
Class A2	Bardis Priority Claims	Paid in full by Plan Agent on latest of (a) Effective Date; (b) when due or such later date as approved by the claimant; or (c) when allowed by Final Order.

<u>CLASS</u>	<u>CLAIMS</u>	<u>SUMMARY OF TREATMENT</u>
Class B1.1	Silver Oak Reynen Secured Claim	Permitted to foreclose on its collateral immediately following the Effective Date.
Class B1.2	AKT Secured Claim	Paid monthly interest by Plan Agent at the rate of 5% for twelve months, subject to abandonment or reinstatement by the Plan Agent, with rights to seek early relief and lien retention.
Class B1.3	Bank of America-Sacramento Secured Claim	Paid monthly interest by the Reynen Debtors at the rate of 5% for twelve months, subject to abandonment or reinstatement by the Reynen Debtors, with rights to seek early relief and lien retention.
Class B1.4	CBT Secured Claim	Paid monthly interest by Plan Agent at the rate of 5% for twelve months, subject to abandonment or reinstatement by the Plan Agent, with rights to seek early relief and lien retention.
Class B1.5	Chase Secured Claim	Paid monthly interest by Plan Agent at the rate of 5% for twelve months, subject to abandonment or reinstatement by the Plan Agent, with rights to seek early relief and lien retention.
Class B1.6	Merrill Lynch Secured Claim	Paid monthly interest by the Reynen Debtors at the rate of 5% for twelve months, subject to abandonment or reinstatement by the Reynen Debtors, with rights to seek early relief and lien retention.
Class B1.7	PNB Secured Claim	Paid monthly interest by the Reynen Debtors at the rate of 5% for twelve months, subject to abandonment or reinstatement by the Reynen Debtors, with rights to seek early relief and lien retention.
Class B1.8	Wells-Wallace Secured Claim	Paid monthly interest by Plan Agent at the rate of 5% for twelve months, subject to abandonment or reinstatement by the Plan Agent, with rights to seek early relief and lien retention.
Class B1.9	Wells-Mendocino Secured Claim	Paid monthly interest by Plan Agent at the rate of 5% for twelve months, subject to abandonment or reinstatement by the Plan Agent, with rights to seek early relief and lien retention.

<u>CLASS</u>	<u>CLAIMS</u>	<u>SUMMARY OF TREATMENT</u>
Class B1.10	Wells-Truckee Secured Claim	Paid monthly interest by Plan Agent at the rate of 5% for twelve months, subject to abandonment or reinstatement by the Plan Agent, with rights to seek early relief and lien retention.
Class B1.11	Wells-Reno Secured Claim	Paid monthly interest by Plan Agent at the rate of 5% for twelve months, subject to abandonment or reinstatement by the Plan Agent, with rights to seek early relief and lien retention.
Class B1.12	All other Reynen Secured Claims	At the election of the Plan Agent, either fully cured and reinstated, or paid in full, or allowed to foreclose upon collateral.
Class B2.1	ATAP Secured Claim	Permitted to foreclose on its collateral immediately following the Effective Date.
Class B2.2	Silver Oak Bardis Secured Claim	Permitted to foreclose on its collateral immediately following the Effective Date.
Class B2.3	Wachovia-Gold River Secured Claim	All arrearages owing to secured creditor will be cured and the underlying loan will be fully reinstated by the Reorganized Bardises.
Class B2.4	Wachovia-L.A. Secured Claim	Permitted to foreclose on its collateral immediately following the Effective Date.
Class B2.5	Bank of West-Gold River Secured Claim	Unless the Reorganized Bardises commence a motion or complaint to avoid and disallow the claim within thirty (30) days following the Effective Date, the holder of the Allowed Secured Claim will be permitted to exercise nonbankruptcy law remedies.
Class B2.6	BankFirst-Gold River Secured Claim	Unless the Reorganized Bardises commence a motion or complaint to avoid and disallow the claim within thirty (30) days following the Effective Date, the holder of the Allowed Secured Claim will be permitted to exercise nonbankruptcy law remedies.
Class B2.7	First Tennessee Secured Claim	Unless the Reorganized Bardises commence a motion or complaint to avoid and disallow the claim within thirty (30) days following the Effective Date, the holder of the Allowed Secured Claim will be permitted to exercise nonbankruptcy law remedies.

<u>CLASS</u>	<u>CLAIMS</u>	<u>SUMMARY OF TREATMENT</u>
Class B2.8	BankFirst-Pebble Proceeds Secured Claim	To the extent that any Secured Claim within this Class is asserted and allowed by a Final Order, the holder thereof will be permitted to exercise nonbankruptcy law remedies.
Class B2.9	All other Bardis Secured Claims	At the election of the Plan Agent, either fully cured and reinstated, or paid in full, or allowed to foreclose upon collateral.
Class C1	Reynen Convenience Claims (\$2,500 or less)	Payment by Plan Agent equal to 5% of Allowed Claim, on latest of (a) Effective Date or (b) when claim becomes Allowed, with right to opt in to, or out of, class.
Class C2	Bardis Convenience Claims (\$2,500 or less)	Payment by Plan Agent equal to 5% of Allowed Claim, on latest of (a) Effective Date or (b) when claim becomes Allowed, with right to opt in to, or out of, class.
Class D1	Reynen Unsecured Claims	Payments by Plan Agent from time to time on a pro rata basis as funds permit, from the net proceeds of asset sales, avoidance recoveries and income tax refunds. Estimated to be between approximately 2.8% and approximately 6.1% of allowed amounts in the aggregate.
Class D2	Bardis Unsecured Claims	Payment by Plan Agent from time to time on a pro rata basis as funds permit, from the net proceeds of asset sales, avoidance recoveries and income tax refunds. Estimated to be between approximately 2.2% and approximately 5.2% of allowed amounts in the aggregate.
Class E1	Reynen Equity Interests	Reynen Debtors will receive the Reynen Excluded Assets as of the Effective Date, and shall be entitled to certain incentive payments as described in Section II(C)(4) below.
Class E2	Bardis Equity Interests	Bardis Debtors will receive the Bardis Excluded Assets as of the Effective Date, and shall be entitled to certain incentive payments as described in Section II(C)(4) below.

1 **C. Material Elements of the Plan**

2 The following is a brief summary of certain of the material provisions of the Plan that allow
3 for the distributions and treatments contemplated by the Plan. This overview is qualified in its
4 entirety by reference to the provisions of the Plan itself, a copy of which is annexed hereto as **Exhibit**
5 **“A,”** as well as financial and other information contained elsewhere in this document and in the
6 exhibits attached hereto.

7 **1. Appointment of Plan Agent.** On and after the Effective Date, a Plan Agent, selected
8 by the Creditors’ Committee and the Debtor Group, will direct the liquidation of the Estates’ assets
9 and to oversee the buildout of certain existing projects. The Plan Agent will obtain a fidelity bond at
10 the Estates’ expense, shall be independent of all other interests in the cases, and must have sufficient
11 business experience to make knowledgeable business judgments related to the implementation of the
12 Plan. The Plan Agent may be removed and replaced by the Plan Committee, with the reasonable
13 approval of the Reorganized Debtors.

14 The Creditors’ Committee and the Debtor Group have selected Hank Spacone for the role of
15 Plan Agent, and Mr. Spacone has agreed to be retained in that capacity. Therefore, subject to the
16 occurrence of the Effective Date, Mr. Spacone will act as the Plan Agent and will be assisted by his
17 staff, including the following individuals, at the following hourly rates: \$250.00 per hour for Mr.
18 Spacone; \$125.00 per hour for Marsha Kass; \$100.00 per /hour for Chris Barlow; and \$60.00 per
19 hour for Pamela Henderson. Pending the Effective Date, Mr. Spacone has been retained by the
20 Creditors’ Committee as its consultant, so that once the Plan becomes effective, there will be no time
21 lost in familiarizing the Plan Agent with the assets and liabilities of the Estates that he will
22 administer.

23 Mr. Spacone has been selected for his expertise, experience and proven ability, based in part
24 upon the following: Mr. Spacone is a licensed and practicing certified public accountant with over 25
25 years of experience. He has served as a chapter 7 and chapter 11 bankruptcy trustee in both the
26 Northern and Eastern Districts of California. Mr. Spacone has provided consulting services to
27 corporate and individual clients covering many industries. He has extensive experience in complex
28 corporate reorganization and bankruptcy liquidations. Mr. Spacone has also had experience in

1 developing financial structuring for public/private partnership projects through private placements
2 and public offerings. Attached hereto as **Exhibit “H”** is Mr. Spacone’s curriculum vitae.

3 The Plan Agent will commence services as of the Effective Date, and will continue to perform
4 his duties until completion of the final distribution to be made in implementation of the Plan, or until
5 removed pursuant to the terms of the Plan. The Plan Agent will act in each of the Reynen Case and
6 the Bardis Case, and will keep separate accounts, books and records for each of the Estates. The Plan
7 Agent will be responsible for the implementation of the Plan to the extent expressly provided in the
8 Plan, and will have certain duties, powers and authorities in order to do so, including the ability to
9 monitor and direct, in defined respects, the assistance efforts of the Debtor Group, full access to the
10 books and records of Buildco (see Section II(C)(5) below for a description of this entity and its role
11 under the Plan), the ability to negotiate settlements and to sell assets on behalf of the Estates, the
12 power to file and prosecute Estate avoidance claims and objections to Claims, in accordance with the
13 terms of the Plan, and the responsibility to make distributions to creditors from time to time and to
14 manage the Estates’ funds in the interim. The Plan Agent also will be responsible for making
15 expenditures on behalf of the Estates, including maintaining insurance coverage and paying the
16 approved administrative expenses of Plan implementation.

17 The Plan Agent is also responsible for making advances to Buildco in accordance with a
18 budget approved by the Creditors’ Committee and R&B, subject to modification in certain
19 circumstances. As discussed below, the continued, limited operation of Buildco is considered by
20 both the Debtor Group and the Creditors’ Committee to be beneficial to the Estates herein, given the
21 likely reduction of unsecured guarantee claims in these cases that will result from Buildco’s
22 completion of existing construction projects.

23 2. **Appointment of Plan Committee.** A Plan Committee will be formed as of the
24 Effective Date in order to monitor the activities of the Plan Agent and the Debtor Group, and to
25 provide or withhold consents to certain actions by each. There will be either three or five members of
26 the Plan Committee, all of whom will be holders of Claims within Classes D1 or D2 selected by the
27 Creditors’ Committee and approved by the Court. Members shall be compensated and reimbursed
28 their expenses, and each member and its representative shall be indemnified by the Estates against

any claims against them other than for gross negligence or intentional misconduct. In addition, to the extent reasonably available, the Plan Agent will purchase errors and omissions insurance coverage for such members (as well as for the Plan Agent and, within certain limitations, the Debtor Group).

To date, subject to Bankruptcy Court approval, the following creditors have agreed to become members of the Plan Committee: Wells Fargo Bank, N.A., Guaranty Bank and Lennar Renaissance, Inc. Each of those creditors holds claims against both the Reynen Estate and the Bardis Estate. It is anticipated that two more members may be asked to serve on the Plan Committee. Members will be reimbursed their expenses in serving on the Plan Committee, plus an attendance fee for each meeting of the Plan Committee attended.

3. Estates and Excluded Assets. As of the Effective Date, all assets of the two Estates shall remain in those Estates and be managed by the Plan Agent, except for certain properties (the “Excluded Assets”) that will be revested in the Reorganized Debtors. Those Excluded Assets, in general, are either exempt from creditors’ claims as a matter of law or considered to have limited equity or recovery value. The Excluded Assets are as follows:

- Reynen Excluded Assets: Pursuant to the terms of the Plan, the following assets will be revested in the Reynen Debtors on the Effective Date and will not be subject to liquidation or creditor claims:
 - Sacramento Property – The Reynen Debtors’ residence, located at 2400 E. Tiffany, Sacramento, California.
 - Pennsylvania Farm – The Reynen Debtors’ house, land and quarry, together with related interests and assets, located in Hartford Pennsylvania.
 - Personal Items – All household goods, vehicles, jewelry, artwork, clothing and other personal items of the Reynen Estate.
 - Mercedes Vehicle – A 2007 Mercedes Benz vehicle.
- Bardis Excluded Assets: Pursuant to the terms of the Plan, the following assets will be revested in the Bardis Debtors on the Effective Date and will not be subject to liquidation or creditor claims:

- Kastanitsas Property – The Bardis Debtors’ house and related property in Kastanitsas, Greece.
- Personal Property – All household goods, vehicles, jewelry, artwork, clothing and other personal items of the Bardis Estate.
- C&S Partnership – The Bardis Debtors’ interest in C&S Partnership, a partnership that owns horses and buys, trains and sells those horses.
- Private Club Memberships – Any private club memberships owned by the Bardis Estate as of the Bardis Petition Date.
- Gold River Property – The Bardis Debtor’s primary residence, located at 11375 Huntington Village Lane, Gold River, CA 95670.

4. Continuing Role and Compensation of Debtor Group. Following the Effective Date, the Debtor Group will make reasonable best efforts to provide assistance to the Plan Agent in five respects: (a) assistance in the Plan Agent’s efforts to sell the Estates’ assets for the benefit of creditors, for an approximate one-year sale period; (b) the potential defense of the Estates’ income tax refunds recently obtained; (c) operation of Buildco in order to complete certain development or construction projects as to which the Debtor Group has provided personal guarantees, and thereby reduce deficiency claims asserted against the Estates; (d) review of claims filed against the Estates, and prosecution of claims objections to the extent appropriate and approved by the Plan Agent; and (e) assist in the prosecution of avoidance and other claims held by the Estates.

In consideration of those efforts, the Debtor Group will be compensated as follows, subject to suspension by the Plan Agent in certain circumstances set forth in the Plan. It is the view of the Debtor Group and the Committee that the compensation provided to the Debtor Group will not materially reduce the net distributions to creditors, and will in fact substantially benefit the two estates and enhance creditors’ distributions significantly, through the Debtor Group’s assistance in maximizing recoveries and minimizing claims. The forms of compensation provided under the Plan are as follows:

- Sale Period Compensation. As compensation for their assistance in the Plan Agent’s sales efforts, the Reynen Debtors and the Bardis Debtors will each receive monthly

payments of \$30,000 per month from May 1, 2009 to December 31, 2009, and \$15,000 per month from January 1, 2010 to May 31, 2010, up to a maximum amount of \$315,000 for the Reorganized Reynens and \$315,000 for the Reorganized Bardises, all subject to extension and/or increase only with the consent of the Debtor Group, the Plan Agent and the Plan Committee, and also subject to offset by certain living expenses of the Debtor Group, and the holding costs of Excluded Assets (described below) incurred and paid by the Estates on or after May 1, 2009.

- Claim Reduction Incentives. As compensation for their assistance in claims reductions, both through claims reviews and objections and through the ongoing operations and buildouts by Buildco, the Debtor Group will receive, collectively, incentive payments measured by the actual reductions of claims achieved, on a claim by claim basis (with certain exceptions and limitations, but not offset by claims allowed in amounts greater than contemplated). Reductions will be measured against a claim list agreed upon between the Creditors' Committee and the Debtor Group that sets forth their collective estimation of the likely outcome of those claims in a chapter 7 liquidation. To the extent that those claims are allowed in amounts that are less than

Deficiency Reduction Amt	Cumulative Deficiency Reduction	% Paid	Dollars in Thousands		
			Dollar Amount Range	Step Incentive	Cumulative Incentive
First \$10,000	\$10,000	0.00%	\$0	\$ -	\$ -
Next 15,000	25,000	1.00%	0 to 150	150	150
Next 25,000	50,000	1.50%	0 to 375	375	525
Next 25,000	75,000	2.25%	0 to 563	563	1,088
Next 25,000	100,000	3.00%	0 to 750	750	1,838
Next 25,000	125,000	4.50%	0 to 1,125	1,125	2,963
Next 25,000	150,000	6.00%	0 to 1,500	1,500	4,463

would have occurred in a chapter 7 liquidation (or in some specified cases, to the extent that particular components of claims are reduced by greater recoveries from collateral), the Estates, and therefore the Debtor Group, will benefit. The percentages and fees derived from those reductions will be calculated according to the following

Claim Reduction Table:

- Tax Refund Incentives. As consideration for both the pre-Effective Date filing and prosecution of the Estates' tax returns, and the post-Effective Date potential defense of substantial tax refunds recently received, the Debtor Group will earn compensation based upon the extent of those refunds, to the extent finally resolved with the Internal Revenue Service or by the Bankruptcy Court, as follows:
 - Reynen Debtors. For the Reynen Debtors, zero percent (0%) for net refunds arising from the Reynen Estates' tax returns equal to or below \$7,000,000; five percent (5%) of such net refunds between \$7,000,001 and \$15,000,000, inclusive; and eleven percent (11%) of such net refunds over \$15,000,000.
 - Bardis Debtors. For the Bardis Debtors, zero percent (0%) for net refunds arising from the Bardis Estates' tax returns equal to or below \$10,500,000; five percent (5%) of such net refunds between \$10,500,001 and \$18,500,000, inclusive, less \$397,460 from such five percent, and eleven percent (11%) of such net refunds over \$18,500,000.

5. Continuing Role of Buildco.

R&B is a construction company that for years has been the primary entity through which the Debtor Group conducted their real estate construction and development business. The staff of R&B has traditionally handled all administrative, financial and management functions for that business, and that staff is intimately familiar with all pending projects of subsidiary special purpose entities ("SPEs"), construction loans connected therewith, and tax returns and refunds related to the projects and to the business generally. In February 2009, the core of that staff moved to a newly established construction management firm, Buildco, Inc., a California corporation (collectively with R&B, "Buildco"), and R&B's operations have been substantially reduced or terminated. The expertise of that staff is essential to the maximization of distributions to the Estates' creditors, in defending the tax refunds recently received by the Estates, in reducing deficiency claims by completing ongoing projects of the SPEs, in assisting in the prosecution of avoidance claims, and in reviewing and challenging filed claims as necessary.

1 Under the Plan, Buildco, Inc. will continue to operate after the Effective Date in order to
2 finish pending construction projects commenced by certain SPEs and to maximize recoveries by
3 those SPEs' lenders, thereby reducing deficiency claims that will be asserted against the Reynen and
4 Bardis Estates. Buildco, Inc. and its staff will also assist, along with the Debtor Group, in defending
5 the tax refunds obtained by the Estates. The Plan Agent will provide funding to Buildco from the
6 Estates for those purposes, in accordance with a budget prepared by Buildco and approved by the
7 Creditors' Committee, and subject to modifications in certain circumstances.

8 Buildco will be limited in their uses of funds advanced by the Plan Agent. For example, the
9 entities will be prohibited from using advanced funds (or in the case of the new entity, Buildco, Inc.,
10 any funds) for any "hard" construction costs, unless reasonably approved by the Plan Agent. The
11 buildouts are expected to be completed by the end of 2009, unless such deadline is extended with the
12 consent of the Plan Agent, after which it is expected that R&B or Buildco, Inc., as the case may be,
13 will wind down its operations and close.

14 **6. Debtor Group's Discharge and Asset Ownership.**

15 Pursuant to the provisions of Section 1141 of the Bankruptcy Code, each of the Reynen
16 Debtors and the Bardis Debtors shall be discharged of all Claims against them as existing as of the
17 Effective Date. The Claims will be discharged regardless of whether they are asserted against either
18 of the Estates, and notwithstanding allowance or disallowance in the Chapter 11 Cases. Such
19 discharge will become effective on December 31, 2009, and the discharge language of the Plan will
20 also be contained in the Confirmation Order. The confirmation process and notice of the
21 Confirmation Hearing will constitute full notice and opportunity for hearing with respect to such
22 discharge terms, for purposes of Section 1141(d)(5)(A) of the Bankruptcy Code. All assets acquired
23 or owned by the Debtor Group as of or after the Effective Date, including without limitation the
24 Excluded Assets, any compensation paid to them by the Plan Agent in accordance with the terms of
25 the Plan, and any income from any other services or investments accrued or made after the Effective
26 Date, shall not be property of the Estates herein, and shall not subject to any Claims against the
27 Estates.

1 **7. Treatment of Secured Claims, Generally.** All Secured Claims will be treated in one
2 of the following manners:

- 3 • Unimpaired Claims. The holders of Allowed Secured Claims within the following
4 classes will be permitted to foreclose on underlying collateral or the Allowed Secured
5 Claim will be reinstated upon the Effective Date, and those Claims are therefore
6 unimpaired: B1.1, B1.12, B2.1, B2.2, B2.3, B2.4, B2.8 and B2.9.
- 7 • Impaired Claims Encumbering Estate Assets. The holders of Allowed Secured Claims
8 within the following classes, whose liens encumber Estate assets, will be paid interest
9 at 5% per annum by the Plan Agent for one year, unless earlier abandoned or sold:
10 B1.2, B1.4, B1.8, B1.9, B1.10 and B1.11. Thereafter, the Claims will be reinstated
11 and cured, or the holders will be permitted to foreclose on underlying collateral.
- 12 • Impaired Claims Encumbering Excluded Assets. The holders of Allowed Secured
13 Claims within the following classes, whose liens encumber Excluded Assets, will be
14 paid interest at 5% per annum by the Reorganized Reynens or the Reorganized
15 Bardises, as the case may be, for one year, unless earlier abandoned or sold: B1.3,
16 B1.5, B1.6, B1.7 and B2.8. Thereafter, the Claims will be reinstated and cured, or the
17 holders will be permitted to foreclose on underlying collateral, except as to Class
18 B2.6, as described below.
- 19 • Potentially Avoidable Claims Encumbering Excluded Assets. The Secured Claims
20 within Classes B2.5, B2.6 and B2.7, to the extent otherwise valid, impair the Bardis
21 Debtors' homestead exemption with respect to the Gold River Property, the Bardis
22 Debtors' primary residence. Therefore, the Reorganized Bardises will be entitled to
23 file and serve a motion or complaint for avoidance, disallowance or modification of
24 such Secured Claims pursuant to Section 522(f) of the Bankruptcy Code or any other
25 provision of law within thirty (30) days following the Effective Date. If they fail to do
26 so, or if such motion or complaint is timely filed but ultimately unsuccessful, the
27 holder of the Allowed Secured Claims within Classes B2.5, B2.6 and B2.7 shall be
28 permitted to exercise its right, if any, to foreclose upon the Gold River Property.

- Other Secured Claims. Other Allowed Secured Claims, unknown to the Debtor Group as of the present and classified as a precaution in Classes B1.12 and B2.9, will not be impaired, and shall be reinstated, abandoned or paid in full, at the Plan Agent's election.

8. Allocation of Administrative Expenses

Pursuant to Section 3.5 of the Plan, administrative expenses incurred by one of the Estates for the mutual benefit of both Estates, such as professional fees incurred in the negotiations and preparation of the Plan jointly for both Estates, will be allocated fairly between the Estates by the Plan Agent, upon notice and opportunity for hearing provided to the Plan Committee, the Reorganized Debtors and the United States Trustee.

9. Treatment of Administrative Convenience Claims

Under the Plan, all unsecured claims of \$2,500.00 or less, and all unsecured claims voluntarily reduced to that amount, shall be paid at the rate of five percent (5.0%) of allowed amounts on the Effective Date or upon allowance, whichever is later, provided that holders of claims within such limit may choose to "opt out" of such treatment in favor of treatment of general unsecured claims within Classes D1 and D2, or to "opt in" to such treatment by reducing their claims to the threshold amount.

10. Treatment of General Unsecured Claims

General unsecured claims within Classes D1 and D2, consisting of all unsecured claims against the Reynen Debtors and the Bardis Debtors, respectively, that are not classified within other classes, shall be paid on a pro rata basis by the Plan Agent from funds of the respective Estates, from time to time as funds permit. It is anticipated, strictly as estimated projections subject to all of the uncertainties and risks attendant to projections generally and as described elsewhere herein, that the aggregate distribution to creditors within Class D1 (Reynen Unsecured Claims) will be between approximately 2.2% and approximately 6.1%, and that the aggregate distribution to creditors within Class D2 (Bardis Unsecured Claims) will be between approximately 2.2% and approximately 5.2%.

D. Recommendation as to Plan

1 THE DEBTOR GROUP BELIEVES THAT THE PLAN PROVIDES THE GREATEST
2 AND EARLIEST POSSIBLE RECOVERIES TO HOLDERS OF ALL CLAIMS, AND THAT
3 ACCEPTANCE OF THE PLAN IS IN THE BEST INTERESTS OF ALL HOLDERS OF CLAIMS.
4 THE DEBTOR GROUP THEREFORE RECOMMENDS ACCEPTANCE OF THE PLAN BY ALL
5 PARTIES IN INTEREST. THE CREDITORS' COMMITTEE APPOINTED IN THE REYNEN
6 CASE ALSO BELIEVES THAT THE PLAN PROVIDES THE BEST AND EARLIEST
7 RECOVERY FOR HOLDERS OF GENERAL UNSECURED CLAIMS IN THE REYNEN CASE,
8 AND THEREFORE RECOMMENDS ACCEPTANCE OF THE PLAN BY ALL SUCH HOLDERS.

9 **III. INFORMATION REGARDING THE CHAPTER 11 ESTATE**

10 The following information is provided in summary form with respect to the Debtor Group,
11 their chapter 11 estates, and related topics:

12 **A. The Debtor Group and Their Business Interests**

13 The Debtor Group's principal business enterprise is real estate development, through
14 ownership interests held by John D. Reynen and Christo Bardis in several corporations and more than
15 110 special purpose entities, primarily limited liability companies, the SPEs. One of those
16 corporations is R&B, or Reynen & Bardis Communities, Inc., a California corporation owned 50%
17 by John Reynen and 50% by Christo Bardis. Most of the SPEs were formed for specific projects
18 related to building homes or developing land, with financing provided by institutional lenders. Most
19 or all of the loans made by those lenders to the SPEs have been personally guaranteed by John
20 Reynen and Christo Bardis. Subsequently, in many instances, the SPEs transferred their properties
21 and loans (by consensual assumptions) to corporations owned in part or in full by the Debtor Group,
22 including R&B.

23 The Debtor Group's business was very successful for years, building thousands of homes in
24 Northern California and Nevada. In the process, the Debtor Group guaranteed hundreds of
25 construction loans and, upon completion of projects, repaid those loans and discharged their
26 guarantee obligations.

27 **B. Events Leading to Commencement of Chapter 11 Case**

28 Unfortunately, as a result of the severe downturn in the housing market and dramatic decline

1 in home values in 2007 and 2008, many of the SPEs became insolvent and defaulted in their
2 obligations to their respective lenders. This, in turn, placed the Debtor Group in jeopardy of owing
3 substantial debts under personal guarantees for deficiencies in recoveries by the lenders to those
4 SPEs, on loans having an aggregate balance of more than \$900 million. Whereas the Debtor Group
5 was able to work cooperatively with most of those lenders in order to complete projects and
6 maximize lenders' recoveries (and thereby reduce personal guarantee exposures), certain of those
7 lenders chose to pursue collection actions against the Debtor Group, putting at risk the Debtor
8 Group's assets that would otherwise be available for distributions to all creditors. One lender in
9 particular, the Bank of the West, brought suit against both John Reynen and Christo Bardis in order to
10 enforce personal guarantees, and in January 2008, obtained prejudgment writs of attachment against
11 their personal assets.

12 In order to prevent the Bank of the West's prejudgment writs from becoming permanent liens
13 upon the Reynen Debtors' assets, therefore, and in order to prevent other collection actions that
14 would harm creditors as a whole, the Reynen Debtors filed their voluntary petition to commence their
15 chapter 11 case on April 23, 2008. The Reynen Debtors then commenced negotiations with the
16 Creditors' Committee in order to reach agreement on a consensual reorganization plan. The Bardis
17 Debtors filed their own voluntary petition on October 15, 2008 in order to facilitate an overall
18 reorganization of their obligations in conjunction with the Reynen Debtors' reorganization efforts.

19 As set forth in the schedules of assets and liabilities filed by the Debtor Group in these cases,
20 the claims against the Debtor Group's estates, including claims of the SPEs' lenders under personal
21 guarantees, may range from hundreds of millions of dollars to almost one billion dollars, depending
22 on the outcome of the SPEs' construction and sale programs, among other contingent variables. The
23 Estates' assets have been valued between \$50 million and \$70 million, depending on methods of
24 valuation and the outcome of the recently received tax refunds.

25 IV. SIGNIFICANT EVENTS DURING THE CHAPTER 11 CASE

26 The following is a brief description of some of the major events that have occurred during the
27 Chapter 11 Cases.

28 A. Operation of Business by Debtors-in-Possession

1 Since the commencement of their respective Chapter 11 Cases, the Reynen Debtors and the
2 Bardis Debtors have managed their assets as debtors-in-possession under the protection of the
3 Bankruptcy Court, pursuant to Sections 1107 and 1108 of the Bankruptcy Code. An immediate effect
4 of the commencement of the Chapter 11 Cases was the imposition of the automatic stay under
5 Section 362(a) of the Bankruptcy Code, which, with limited exceptions, enjoins the commencement
6 or continuation of all prepetition litigation against, and efforts to collect funds from, the Debtor
7 Group or its property, including threatened actions by banks to foreclose upon assets of the Debtor
8 Group. This injunction remains in effect unless and until modified or lifted by order of the
9 Bankruptcy Court.

10 The Debtor Group has used this respite from debt collection to restructure its obligations and
11 business operations, through negotiations with the SPEs' lenders and with the Creditors' Committee.
12 In that regard, the Debtors have negotiated with lenders to complete buildouts of existing unfinished
13 projects, as described further in Section IV(H) below, which discusses the forbearance agreements
14 entered into after the Reynen Petition Date. The Reynen Debtors have also negotiated with secured
15 creditors who filed motions for relief from the automatic stay to reach compromises under which
16 associated deficiency claims would be waived, as explained in more detail in Section IV(I) below,
17 which discusses stay relief motions.

18 **B. Appointment of Official Unsecured Creditors' Committee in the Reynen Case**

19 On May 5, 2008, the United States Trustee appointed the Creditors' Committee in the Reynen
20 Case, pursuant to the provisions of Sections 1102(a)(1) and 1102(b)(1) of the Bankruptcy Code, to
21 represent the interests of general unsecured creditors of the Reynen Debtors. At the time of reaching
22 agreement with the Debtor Group with respect to the terms of the Plan, the Creditors' Committee had
23 seven members, each of which held substantial unsecured claims. Currently, four of those members,
24 each of which holds a large unsecured claim, remain, as follows:

25 26 27 28	Guaranty Bank Attn: Clifford D. Ogle 8333 Douglas Ave. Dallas, TX 75225	Wells Fargo Bank, N.A. Attn: Pat Mooney 2030 Main Street, Suite 800 Irvine, CA 92614
	Comerica Bank MC 4841 Attn: Hisashi Takiguchi	Lennar Renaissance, Inc. Attn: Brian Brombeck

333 W. Santa Clara St.
San Jose, CA 95113

25 Enterprise
Aliso Viejo, CA 92656

No creditors' committee has been appointed in the Bardis Case. However, because most of the general unsecured creditors of the Reynen Estate are also general unsecured creditors of the Bardis Estate, it is the Debtor Group's belief that negotiations with the Creditors' Committee, even though appointed only in the Reynen Case, have produced Plan terms that are in the best interests of creditors of both Estates.

C. Use of Cash During Chapter 11 Cases

The Reynen Debtors had approximately \$1,168,000 in cash on hand as of the Reynen Petition Date. Since that date, those funds have been used for operating purposes, including advances and reimbursements made to R&B, and payments of approved interim compensation payable to the Creditors' Committee's professionals (all with the approval of the Creditors' Committee and, where necessary, the approval of the Bankruptcy Court). In addition, those funds have been increased by approximately \$2,966,000 in distributions from entities that have no debt and which are owned by the Reynen Debtors, and by approximately \$24,467,000 in income tax refunds received from the Internal Revenue Service. As a result, the Reynen Estate's cash on hand as of February 28, 2009 was approximately \$26,863,000.

The Bardis Debtors had approximately \$268,000 in cash on hand as of the Bardis Petition Date. Since that date, those funds have been used for operating purposes, and have been increased by the receipt of income tax refunds in the amount of \$32,724,000 and other receipts of approximately \$115,000. The Bardis Estate's cash on hand as of February 28, 2009 was approximately \$32,750,000.

All of the aforementioned income tax refunds received by the Reynen Debtors and the Bardis Debtors are subject to disgorgement to the Internal Revenue Service if the latter successfully challenges the Debtor Group's income tax returns that resulted in those refunds. The Debtor Group has not yet reached agreement with the Internal Revenue Service as to any such challenge.

D. Bankruptcy Schedules and Statements of Financial Affairs

On May 23, 2008, the Reynen Debtors filed their Schedules of Assets and Liabilities and Statement of Financial Affairs, identifying all assets and liabilities of the Reynen Estate as of the

1 Reynen Petition Date and other information regarding the Reynen Debtors' financial condition and
2 affairs. Those schedules were amended on June 23, 2009 in order to provide certain corrections and
3 additions.

4 The Reynen Debtors' Statement of Financial Affairs contains a list of prepetition transfers to
5 insiders within two years of the Reynen Petition Date. Most of those transfers were made as
6 protective measures in order to avoid the imposition of attachment liens sought by creditor/plaintiffs
7 and to preserve the transferred properties for the benefit of all creditors. A chart containing all such
8 transfers, together with additional such transfers identified after the schedules were filed, and
9 containing explanations of the transfers and statements as to intended dispositions, is attached hereto
10 as **Exhibit "I"**. All such transfers have been fully disclosed to the Committee and its professionals.

11 On October 24, 2008, the Bardis Debtors filed their Schedules of Assets and Liabilities and
12 Statement of Financial Affairs, identifying all assets and liabilities of the Bardis Estate as of the
13 Bardis Petition Date. Those schedules were amended on November 10, 2008.

14 **E. Representation of the Debtor Group and the Creditors' Committee**

15 Under applicable provisions of the Bankruptcy Code, the Reynen Debtors, the Bardis Debtors
16 and the Creditors' Committee are entitled to retain professionals, subject to approval by the
17 Bankruptcy Court. Those professionals' compensation and reimbursement of costs must be paid
18 from funds of the Debtor Group's respective Estates and are treated as administrative expenses,
19 unless other arrangements are made with Bankruptcy Court approval. In the Chapter 11 Cases to
20 date, the following professionals have been retained:

21 **1. Reynen Debtors' Professionals**

22 The Reynen Debtors have retained various professionals, including the following: (a) the law
23 firm of Meyers Law Group, P.C. of San Francisco, California, as their general bankruptcy counsel;
24 and (b) the law firm of Wagner Kirkman Klomprens and Youmens LLP, as special corporate and tax
25 counsel.

26 **2. Creditors' Committee's Professionals**

1 The Committee has retained the following: (a) the law firm of Orrick Herrington & Sutcliffe,
2 LLP of Sacramento, California, as its general bankruptcy counsel; and (b) the accounting, tax and
3 financial advisory firm of Grant Thornton LLP (“Grant Thornton”) as its financial advisor.

4 **3. Bardis Debtors’ Professionals**

5 The Bardis Debtors have retained the law firm of Meegan, Hanschu & Kassenbrock of
6 Sacramento, California, as their general bankruptcy counsel.

7 **F. Bar Date for Filing Proofs of Claim**

8 The Bankruptcy Court established September 2, 2008 (the “Reynen Claims Bar Date”) as the
9 last date for filing claims in the Reynen Case, and February 23, 2009 (the “Bardis Claims Bar Date”) as the last date for filing claims in the Bardis Case. The Debtor Group anticipates that motions will
10 be filed in both cases asking the Bankruptcy Court to set a special bar date for certain possible
11 warranty and construction defect claims, but that date has not yet been established.

12 **G. Filing of Tax Returns and Receipt of Refunds**

13 On December 31, 2008, each of the Reynen Debtors and the Bardis Debtors, in agreement
14 with the Creditors’ Committee, filed State and Federal tax returns for 2006 and 2007, as well as
15 amendments of prior years’ returns. The Reynen Debtors’ returns indicated substantial refunds
16 owing to the Reynen Estate, and as a result, the Reynen Debtors have received refunds from the
17 Internal Revenue Service, after offsets, in the aggregate, approximate amount of \$24,467,000, and the
18 Bardis Debtors’ returns also indicated substantial refunds owing to the Bardis Estates, resulting in the
19 Bardies Debtors’ receipt of refunds from the Internal Revenue Service, after offsets, in the aggregate,
20 approximate amount of \$32,724,000. All such refunds have recently been paid by the Internal
21 Revenue Service to the Debtor Group, as indicated above. Though there can be no certainty, the
22 Debtor Group does not anticipate any significant likelihood of future tax refunds of any material
23 amount being received by either of the estates.

24 To date, no closing agreement or other arrangement has been reached with any taxing
25 authorities that would resolve any challenges that may be made with respect to such refunds, and
26 under the Plan, except in certain enumerated circumstances, those funds cannot be used for
27 distributions to creditors until any challenge by the Internal Revenue Service has been resolved and
28

1 the finality of the refunds has been confirmed. The Internal Revenue Service has declined to close
2 and accept the Debtor Group's entitlements to the Tax Refunds, and insists on reserving the right to
3 challenge the refunds at a later time. Therefore, the Debtor Group intends to file, prior to the
4 Effective Date, a complaint under Section 505 of the Bankruptcy Code seeking declaratory relief
5 resolving and finalizing the Tax Refunds in the amounts already received.

6 **H. Forbearance Agreements**

7 During the pendency of the Chapter 11 Cases, the Debtor Group has entered into several
8 forbearance agreements designed to permit the continued funding of SPE projects in order to
9 maximize recoveries by those SPEs' lenders and thereby reduce or eliminate any deficiency liability
10 of the Estates through associated guarantees. Those agreements, in general, permit continued
11 construction or development of projects, provide additional funding by the SPEs' lenders, and limit
12 or eliminate any continuing guarantee liability on the part of the Estates herein. Such forbearance
13 agreements, each of which has been approved by the Bankruptcy Court with the no opposition from
14 the Creditors' Committee, have been reached with KeyBank National Association, Comerica Bank,
15 and JPMorgan Chase Bank.

16 **I. Motions for Relief from Stay and Deficiency Waivers**

17 Since the commencement of the Chapter 11 Cases, the Debtor Group has defended against,
18 compromised or otherwise addressed several motions for relief from the automatic stay brought by
19 creditors asserting security interests in assets of the Estates (as distinguished from assets of the
20 SPEs). Those motions have included the following:

21 On July 10, 2008, Bank of America, N.A. ("Bank of America") brought a motion for relief to
22 foreclose on the Reynen Debtors' primary residence, the Sacramento Property. The Reynen Debtors
23 opposed the motion, and the motion was denied on August 18, 2008.

24 On August 4, 2008, the Savings Bank of Mendocino ("SBM") moved for relief to foreclose
25 upon a parcel of real property in Mendocino, California known as the White Ranch. The Reynen
26 Debtors negotiated a compromise with SBM whereunder relief would be granted and any deficiency
27 claim against the Reynen Debtors or their Estate would be waived.

Also on August 4, 2008, Umpqua Bank N.A. (“Umpqua”) moved for relief to foreclose upon two pieces of property known as Molekumne Oaks and Higgins Ranch. The Reynen Debtors negotiated a compromise with Umpqua whereunder relief would be granted and any deficiency claim against the Reynen Debtors or their Estate would be waived.

On December 10, 2009, First Imperial Capital Bank (“First Imperial”) filed a motion for relief from stay to foreclose upon an apartment building at 915 W. Miner Street owned by a partnership in which the Reynen Debtors hold an interest. The Reynen Debtors opposed the motion and the matter was set for trial for March 9, 2009. The Reynen Debtors and First Imperial reached a compromise, which was approved by the Court in March 2009, pursuant to which First Imperial agreed to withdraw its foreclosure sale notice and to restructure the obligations owing to it, allowing the partnership additional time in which to satisfy those obligations and preserve the apartment building.

On November 24, 2008, the Elk Grove Unified School District (“EGUSD”) filed a motion for relief from stay to collect delinquent Mello-Roos bond installments related to many parcels of property, all but two of which (the McGregor and 15382 Abierto properties) are not property of either of the Estates, but instead property owned by various entities in which the Reynen Debtors and/or the Bardis Debtors hold interests. By order dated January 15, 2009, the Bankruptcy Court granted EGUSD’s motion as to the non-Estate properties, and denied the motion as to the two Estate-owned properties.

J. Travelers Casualty Assertion of Secured Claim

On February 23, 2009, Travelers Casualty and Surety Company of America (“Travelers”) filed Claim No. 1 (the “Travelers Claim”) in the Bardis Case. The Travelers Claim asserts a claim of up to \$26,018,351 for alleged indemnification by the Bardis Debtors for losses incurred or to be incurred by Travelers under certain construction-related performance bonds issued by Travelers in connection with SPE projects, and asserts a lien against the Bardis Tax Refunds (and against other unspecified general intangible assets) to secure such claim. On May 19, 2009, Travelers amended its claim in order to assert, among other matters, that the losses incurred to date by Travelers is \$2,266,608.73, and that the “not presently contingent” portion of the claim is \$3,800,000.00.

The Debtor Group disputes the Travelers Claim, both as to liability and as to lien rights. In

1 particular, the Debtor Group does not believe that Travelers holds a valid and enforceable lien against
2 the Bardis Tax Refunds. Accordingly, on May 18, 2009, the Debtor Group filed a joint objection to
3 the allowance of the Travelers Claim, and scheduled a hearing thereon for June 23, 2009. The Debtor
4 Group anticipates that this matter will likely be converted into an adversary proceeding, and that the
5 claim and objection will not be resolved prior to the Effective Date. If the Travelers Claim is
6 ultimately allowed as filed, it will have a material, adverse impact upon distributions to general
7 unsecured creditors in the Bardis Case, but not in the Reynen Case. In any event, the Debtor Group
8 believes that the Travelers Claim will ultimately be disallowed, at least as to the assertion of an
9 enforceable lien against the Bardis Tax Refund.

10 It is noted that no Travelers Claim amount has been included in the calculations of recoveries
11 by creditors of the Bardis Estate under the Plan or under a hypothetical chapter 7 liquidation in
12 Exhibits “D” or “G” attached hereto, given the uncertain, disputed and contingent nature of the claim.
13 However, the Debtor Group does not believe that the Travelers Claim, if quantified for such
14 purposes, would have a material impact on a comparison between Plan recoveries and chapter 7
15 recoveries, because the outcome of the Travelers Claim and the Debtor Group’s recently filed
16 objection would likely be the same under either scenario.

17 **V. ESTATES’ ASSETS AND LIABILITIES**

18 The following is a summary description of the assets and liabilities of the Debtor Group. In
19 most or all cases, stated values are estimated market values that have not been confirmed by any
20 formal appraisals, and are based solely upon the Debtor Group’s best estimates. Also, other than
21 contingent claims for contribution and reimbursement with respect to claims on which they are co-
22 debtors, the Debtor Group is not aware of any claims between them. If any such claims do exist, they
23 will be discharged as of the Effective Date pursuant to the terms of the Joint Plan.

24 **A. Reynen Estate**

25 The assets and liabilities of the Reynen Estate as of February 28, 2009 are as follows:

26 **1. Assets:**

- 27 • Reynen Debtors’ Cash. The Reynen Debtors hold cash of approximately \$26,863,000,
28 of which \$24,467,000 represents tax refunds recently received and not yet resolved.

All such cash held as of the Effective Date will be turned over to the Plan Agent for the benefit of the Reynen Estate.

- Reynen Debtors' Real Property. The Reynen Debtors own, either partially or wholly, the following real property, most of which are encumbered by liens:
 - Sacramento Property – The Reynen Debtors own, through a Qualified Personal Residence Trust, a house located at 2400 E. Tiffany Way, Sacramento, California, which is currently the Reynen Debtors' primary residence. Merrill Lynch holds first lien encumbering the property in the approximate amount of \$1,014,914, and Bank of America holds second lien in the approximate amount of \$1,499,898. The fair market value of the Sacramento Property is estimated to be \$2,900,000, and the property is subject to a \$150,000 exemption claimed by the Reynen Debtors. As an Excluded Asset, this property will be revested in the Reorganized Reynens as of the Effective Date.
 - 24th Street Property – The Reynen Debtors own investment property located at 3120 24th Street, Sacramento, California. There is no secured debt encumbering the property, and the approximate value of the property is estimated to be \$120,000. The Plan Agent will be responsible for the sale or other disposition of this property for the benefit of the Reynen Estate.
 - Rancho Murrieta Property – The Reynen Debtors own a 50% interest in investment property located at 15382 Abierto Drive, Rancho Murrieta, California. The Bardis Debtors own the other 50% interest in the Rancho Murrieta Property. There is no secured debt encumbering the property, and the approximate value of the Reynen Debtors' interest in the Rancho Murrieta Property is estimated to be \$80,000. The Plan Agent will be responsible for the sale or other disposition of the Reynen Estate's 50% interest in this property for the benefit of the Reynen Estate.
 - Time Share Property – The Reynen Debtors also own a time share interest with respect to property located at 710 Powell Street, San Francisco, California.

1 There is no secured debt encumbering the interest, and its approximate value is
2 estimated to be \$4,000. The Plan Agent will be responsible for the sale or
3 other disposition of this property for the benefit of the Reynen Estate.

4 ○ Mendocino Property – The Reynen Debtors own, through a Qualified Personal
5 Residence Trust, a vacation home located at 45134 Brest Road, Mendocino,
6 California. Wells Fargo Home Mortgage holds a security interest in the
7 property, securing a debt in the approximate amount of \$2,240,000. The
8 estimated fair market value of the Mendocino Property is estimated to be
9 \$2,500,000. The Plan Agent will be responsible for the sale or other
10 disposition of this property for the benefit of the Reynen Estate.

11 ○ Tiffany West Property – The Reynen Debtors also own a single family home
12 located at 2821 Tiffany West, Sacramento, California. There is no secured
13 debt encumbering the property, and its approximate fair market value is
14 estimated to be \$207,000. The Plan Agent will be responsible for the sale or
15 other disposition of this property for the benefit of the Reynen Estate.

16 ○ El Dorado Hills Property – The Reynen Debtors own a single family home
17 located at 397 Maul Oak Court, El Dorado Hills, California. California Bank
18 & Trust holds a secured claim encumbering the El Dorado Hills Property in the
19 approximate amount of \$108,000. The estimated fair market value of the
20 property is estimated to be \$325,000. The Plan Agent will be responsible for
21 the sale or other disposition of this property for the benefit of the Reynen
22 Estate.

23 ○ Pennsylvania Farm Property – The Reynen Debtors own a single family home
24 and rock quarry located at Route T-0554, Hartford, Pennsylvania. PNB holds
25 first and second liens encumbering the property, in the approximate amounts of
26 \$123,000, and \$269,992, respectively. The estimated fair market value of the
27 Pennsylvania Farm Property is estimated to be \$500,000. As an Excluded
28

Asset, this property will be revested in the Reorganized Reynens as of the Effective Date.

- Pedregal Lot – The Reynen Debtors own an unimproved lot located at Lot 102, Block 17, Cabo San Lucas, Baja, Mexico. The property is held pursuant to a Mexican trust, whose fiduciary is BBVA Bancomer Servicios, SA. There are no secured claims encumbering the property, and the approximate value of the Pedregal Lot, prior to the current downturn, was estimated to be \$1,350,000. The Plan Agent will be responsible for the sale or other disposition of this property for the benefit of the Reynen Estate.
- Pedregal Vacation Property – The Reynen Debtors own a single family vacation home located at Casa Puesta del Sol, Callejon del Sole Number 440, Lot 13, Block 30, Cabo San Lucas, Baja, Mexico. The property is held pursuant to a Mexican trust, whose fiduciary is BBVA Bancomer Servicios, SA. There are no secured claims encumbering the property, and the approximate value of the property, prior to the current downturn, was estimated to be \$1,800,000. The Plan Agent will be responsible for the sale or other disposition of this property for the benefit of the Reynen Estate.
- Reynen Debtors Tangible Personal Property. The Reynen Debtors own household goods, vehicles, jewelry, artwork, clothing and other personal items of the Reynen Estate, with a total approximate book value of an estimated \$606,000. It should be noted that the amount realizable by the Reynen Estate, however, would be considerably less given the uncertainty of actual present values, particularly in the context of a forced sale without the Reynen Debtors' assistance, and substantial exemption rights asserted by the Reynen Debtors would further limit the Reynen Estate's recovery, if any. As Excluded Assets, these properties will be revested in the Reorganized Reynens as of the Effective Date.

- Reynen Debtors Accounts Receivable, Entity Interests and Other General Intangibles.
The Reynen Debtors own accounts receivable and other general intangible personal property having an unknown aggregate value. Among those assets are the following:
 - Reynen Atwood Interest – The Reynen Debtors own a 50% interest in Atwood Partners, with the Bardis Debtors owning the other 50% interest. Atwood Partners owns an account receivable dependent upon other parties acquiring business permits to develop certain land. Whether and when such permitting will occur is uncertain at best, and therefore, the value of the interest is not presently known. The Plan Agent will be responsible for the sale or other disposition of this property for the benefit of the Reynen Estate.
 - Nichols Ranch Interest – The Reynen Debtors own a 21% ownership interest in Nichols Ranch Limited Partnership. The approximate value of that interest is not presently known. The Plan Agent will be responsible for the sale or other disposition of this property for the benefit of the Reynen Estate.
 - R&B Land Investments (Nevada) Interest – The Reynen Debtors own a 50% interest in R&B Land Investments (Nevada), with the Bardis Debtors owning the other 50% interest. The value of that interest is unknown, but not expected to be material. The Plan Agent will be responsible for the sale or other disposition of this property for the benefit of the Reynen Estate.
 - R&B Parella - The Reynen Debtors own a 50% interest in R&B Parella, with the Bardis Debtors owning the other 50% interest. R&B Parella owns an account receivable dependent upon other parties acquiring business permits to develop certain land. Whether and when such permitting will occur is uncertain at best, and therefore, the value of the interest is not presently known. The Plan Agent will be responsible for the sale or other disposition of the Reynen Estate's 50% interest in this property for the benefit of the Reynen Estate.

- Reynen 1215 D St. Interest – The Reynen Debtors own a 12.765% interest in 1215 D Street, which is a limited partnership. The Bardis Debtors also own a 12.765% interest in this partnership. The approximate value of the Reynen Debtors’ interest is estimated to be \$10,000. The Plan Agent will be responsible for the sale or other disposition of the Reynen Estate’s 12.675% interest in this property for the benefit of the Reynen Estate.
- Reynen 2517 C St. Interest – The Reynen Debtors own a 50% interest in 2517 C Street, which is a limited partnership. The Bardis Debtors also own a 50% interest in this partnership. The approximate value of the Reynen Debtors’ interest is estimated to be \$94,171. The Plan Agent will be responsible for the sale or other disposition of the Reynen Estate’s 50% interest in this property for the benefit of the Reynen Estate.
- Reynen 2410 C Street Interest – The Reynen Debtors own a 41.67% interest in 2410 C Street, which is a limited partnership. The approximate value of the Reynen Debtors’ interest is estimated to be \$54,370. The Plan Agent will be responsible for the sale or other disposition of the Reynen Estate’s 41.67% interest in this property for the benefit of the Reynen Estate.
- Reynen Antelope Greens Interest – The Reynen Debtors own a 25% interest in Antelope Greens, a joint venture. The Bardis Debtors also own a 25% interest in this joint venture. The approximate value of the Reynen Debtors’ interest is estimated to be \$210,000. The Plan Agent will be responsible for the sale or other disposition of the Reynen Estate’s 25% interest in this property for the benefit of the Reynen Estate.
- Reynen Castle Park Interest - The Reynen Debtors own a 25% interest in Castle Park LLC. The Bardis Debtors also own a 25% interest in the entity. The approximate value of the Reynen Debtors’ interest is estimated to be \$50,000. The Plan Agent will be responsible for the sale or other disposition

1 of the Reynen Estate's 25% interest in this property for the benefit of the
2 Reynen Estate.

- 3 ○ Reynen Conway Interest – The Reynen Debtors own, indirectly a 27.54%
4 interest in Conway Preservation Group LLC. The approximate fair market
5 value of the Reynen Debtors' interest is estimated to be \$500,000. The Plan
6 Agent will be responsible for the sale or other disposition of the Reynen
7 Estate's 27.54% interest in this property for the benefit of the Reynen Estate.
- 8 ○ Reynen Wilcox Canyon Interest – The Reynen Debtors own 100% of Wilcox
9 Holdings, LLC (NV). The approximate value of the Wilcox Canyon Interest is
10 estimated to be \$3,145,000. The Plan Agent will be responsible for the sale or
11 other disposition of this property for the benefit of the Reynen Estate.
- 12 ○ Town Square Associates – The Reynen Debtors own a 50% interest in Town
13 Square Associates, a limited partnership. The Bardis Debtors also own a 50%
14 interest in the entity. The approximate fair market value of the Reynen
15 Debtors' interest is estimated to be \$137,500. The Plan Agent will be
16 responsible for the sale or other disposition of this property for the benefit of
17 the Reynen Estate
- 18 ○ GSB Development Note Receivable – The Reynen Debtors own a 100%
19 interest in a note receivable owing from GSB Development. The approximate
20 amount of the GSB Development note receivable is estimated to be
21 \$1,260,000. The Plan Agent will be responsible for the sale or other
22 disposition of the Reynen Estate's interest in this receivable for the benefit of
23 the Reynen Estate.
- 24 ○ Carol Hampton Note Receivable – The Reynen Debtors own a 100% interest
25 in a note receivable owing from Carol Hampton. The approximate amount of
26 the Carol Hampton note receivable is estimated to be \$500,000. The Plan
27 Agent will be responsible for the sale or other disposition of the Reynen
28 Estate's interest in this receivable for the benefit of the Reynen Estate.

- Wallace Lake Estates Interest – The Reynen Debtors own a 100% interest in Wallace Lake Estates. The approximate value of this interest is estimated to be \$350,000. The Plan Agent will be responsible for the sale or other disposition of this property for the benefit of the Reynen Estate.
- Reynen CH (Loomis) Interest – The Reynen Debtors own a 12.5% interest in CH (Loomis), which is a limited partnership. The Bardis Debtors also own a 12.5% interest in this partnership. The approximate value of the Reynen interest in this entity is estimated to be \$65,000. The Plan Agent will be responsible for the sale or other disposition of the Reynen Estate’s interest for the benefit of the Reynen Estate.
- Pinnacle Land Ventures Interest – The Reynen Debtors own 100% of Pinnacle Land Ventures, LLC (DE), Series E. The approximate value of this interest is estimated to be \$2,250,000. The Plan Agent will be responsible for the sale or other disposition of this property for the benefit of the Reynen Estate.
- Domina Holdings Interest – The Reynen Debtors own 100% of Domina Holdings, LLC (DE). The approximate value of this interest is estimated to be \$1,400,000. The Plan Agent will be responsible for the sale or other disposition of this property for the benefit of the Reynen Estate.
- Auctor Villas Interest – The Reynen Debtors own 100% of Auctor Villas, LLC (DE). The approximate value of this interest is estimated to be \$225,000. The Plan Agent will be responsible for the sale or other disposition of this property for the benefit of the Reynen Estate.
- John Reynen Life Insurance – The Reynen Debtors own two whole-life insurance policies issued by Guardian Life Insurance Company of America, one for John Reynen, which has an estimated cash surrender value of \$241,000, and the other for Judy Reynen, which has an estimated cash surrender value of \$16,000. The Plan Agent will be responsible for the sale or other disposition of those policies for the benefit of the Reynen Estate.

- KMS Happy Lane L.P. - The Reynen Debtors own a 38.095% interest in KMS Happy Lane L.P., a California limited partnership that, in turn, owns commercial and industrial property. The approximate value of the Reynen Estate's 38.095% interest is estimated to be \$822,000. The Plan Agent will be responsible for the sale or other disposition of the Reynen Estate's interest for in this property the benefit of the Reynen Estate.
- Pine Gardens (Miner Street) Interest – The Reynen Debtors own approximately 50% of the Pine Gardens (Miner Street) partnership. Pine Gardens (Miner Street) owns an apartment building in Yreka, California, which is encumbered by a loan held by First Imperial Capital Bank. It is unknown what the approximate value of the property is at this time, though the Reynen Debtors do believe there is equity in the property. The Plan Agent will be responsible for the sale or other disposition of the Reynen Estate's interest for in this property the benefit of the Reynen Estate.

2. Liabilities:

- Reynen Administrative Claims. The Reynen Debtors estimate that allowed and unpaid administrative expenses to be incurred through the period prior to the confirmation of the Plan will total approximately \$900,000 in the aggregate, including professional fees earned by the Debtors' and the Committee's counsel and the Committee's financial advisors.
- Reynen Secured Claims. Secured claims consist of those described in relation to the Estate assets identified above.
- Reynen Priority Claims. The Reynen Debtors expect approximately \$224,000 of priority claims to be Allowed Claims that will be paid in full.
- Reynen Unsecured Claims. General unsecured claims held against the Reynen Estate include substantial contingent obligations arising from guarantees of the SPEs' debts, and their quantification depends largely on the outcome of SPEs' projects and their lenders' recoveries. The Reynen Debtors estimate that the aggregate amount of

allowable general unsecured claims under the Plan, within Class D1, will be in an approximate range between \$535,321,000 and \$764,655,000. In the event of liquidation under chapter 7, however, the Reynen Debtors believe that the aggregate amount of such claims is more likely to be in an approximate range between \$632,867,000 and \$816,938,000. It is noted, however, that those amounts are estimates only, and the actual outcome of claims may vary widely from those estimates.

B. Bardis Estate

The assets and liabilities of the Bardis Estate as of February 28, 2009 are as follows:

1. Assets:

- Bardis Debtors' Cash. The Bardis Debtors hold cash of approximately \$32,750,000, of which \$32,724,000 represents tax refunds recently received and not resolved. All such cash held as of the Effective Date will be turned over to the Plan Agent for the benefit of the Bardis Estate.
- Bardis Debtors' Real Property. The Bardis Debtors own, either partially or wholly, the following real property, most of which are encumbered by liens:
 - Gold River Property – The Bardis Debtors own a single family home located at 11375 Huntington Village, Gold River, California, which is currently the Bardis Debtors' primary residence. Wachovia has a security interest in the Gold River Property in the amount of \$420,144, Bank of the West asserts an attachment lien junior thereto, BankFirst and First Tennessee may also assert junior attachment liens, and the Bardis Debtors claim homestead exemption rights with respect to the property. The estimated fair market value of the Gold River Property is \$550,000. Accordingly, it is estimated that there is no equity in the approximate Gold River Property from the perspective of the Bardis Estate. The property is an Excluded Asset, and under the Plan, the property will revert in the Reorganized Bardises subject to existing liens and the Reorganized Bardises' right to seek to avoid, disallow or modify the

1 aforementioned writ of attachment pursuant to Bankruptcy Code Section
2 522(f) or any other provision of law.

- 3 ○ Los Angeles Property – The Bardis Debtors own a single family home located
4 at 7551 Coastal View Drive, Los Angeles, California. Wachovia Bank, N.A.
5 has a security interest in the property in the approximate amount of
6 \$2,366,868. The estimated fair market value of the property is \$1,700,000.
7 Therefore, there is no equity in the property. Under the Plan, Wachovia Bank
8 will be permitted to foreclose upon the property.
- 9 ○ Greece Property – The Bardis Debtors own a single family home in
10 Kastanitsas, Greece. There are no secured claims against the Greece Property,
11 and the approximate value of the Greece Property is \$75,000. As an Excluded
12 Asset, this property will be revested in the Bardis Debtors as of the Effective
13 Date.
- 14 ○ Rancho Murieta Property – The Bardis Debtors own 50% of an investment
15 property located at 15382 Abierto Drive, Rancho Murieta, California. The
16 Reynen Debtors own the other 50% of the property. There is no secured debt
17 presently pending against this property, and the approximate value of the
18 Bardis Debtors' interest in the property is \$80,000. The Plan Agent will be
19 responsible for the sale or other disposition of the Bardis Estate's 50% interest
20 in this property for the benefit of the Bardis Estate.
- 21 • Bardis Debtors Tangible Personal Property. The Bardis Debtors owned household
22 goods, vehicles, jewelry, artwork, clothing and other personal items of the Bardis
23 Estate, with an estimated, approximate cost of \$620,000. It should be noted that the
24 amount realizable by the Bardis Estate, however, would be considerably less given the
25 uncertainty of actual present values, particularly in the context of a forced sale without
26 the Bardis Debtors' assistance, and substantial exemption rights asserted by the Bardis
27 Debtors would further limit the Bardis Estate's recovery, if any. As Excluded Assets,
28 these properties will be revested in the Reorganized Bardises as of the Effective Date.

- Bardis Debtors Accounts Receivable, Entity Interests and Other General Intangibles.
The Bardis Debtors own general intangible personal property having an unknown aggregate value. Among those assets are the following:
 - Bardis Atwood Interest – The Bardis Debtors own a 50% interest in Atwood Partnership, with the Reynen Debtors owning the other 50% interest. Atwood Partnership owns a receivable based on other parties acquiring business permits to develop land. As it is impossible to predict when and if the parties will choose to develop the land, the value of this receivable cannot be estimated at this point. It is likely that the receivable will not return any funds for ten years or more. The Plan Agent will be responsible for the sale or other disposition of the Bardis Estate’s 50% interest in this property for the benefit of the Bardis Estate.
 - Bardis 1215 D St. Interest – The Bardis Debtors own a 12.765% interest in 1215 D Street, which is a limited partnership. The Reynen Debtors also own a 12.765% interest in this partnership. The approximate value of the Bardis Debtors’ interest is \$10,000. The Plan Agent will be responsible for the sale or other disposition of the Bardis Estate’s 12.675% interest in this property for the benefit of the Bardis Estate.
 - Bardis 2517 C St. Interest – The Bardis Debtors own a 50% interest in 2517 C Street, which is a limited partnership. The Reynen Debtors also own a 50% interest in this partnership. The approximate value of the Bardis Debtors’ interest is \$94,171. The Plan Agent will be responsible for the sale or other disposition of the Bardis Estate’s 50% interest in this property for the benefit of the Bardis Estate.
 - Bardis Antelope Greens Interest – The Bardis Debtors own a 25% interest in Antelope Greens, which is a joint venture. The Reynen Debtors also own a 25% interest in this joint venture. The approximate value of the Bardis Debtors’ interest is \$210,000. The Plan Agent will be responsible for the sale

1 or other disposition of the Bardis Estate's 25% interest in this property for the
2 benefit of the Bardis Estate.

- 3 ○ Castle Park Interest – The Bardis Debtors own a 25% interest in Castle Park
4 LLC. The approximate value of the Bardis Debtors' interest is \$50,000. The
5 Plan Agent will be responsible for the sale or other disposition of the Bardis
6 Estate's 25% interest in this property for the benefit of the Bardis Estate.
- 7 ○ Cypress Interest – The Bardis Debtors own a 34% interest in Cypress GC,
8 LLC. The approximate value of the Bardis Debtors' interest is \$1,428,000.
9 The Plan Agent will be responsible for the sale or other disposition of the
10 Bardis Estate's 34% interest in this property for the benefit of the Bardis
11 Estate.
- 12 ○ C&S Interest – The Bardis Debtors own a 25% interest in the C&S
13 Partnership, which interest is estimated to have an approximate fair market
14 value of \$243,750. As an Excluded Asset, the Bardis Debtors' interest in C&S
15 will be revested in the Reorganized Bardises as of the Effective Date.
- 16 ○ Bardis CH (Loomis) Interest – The Bardis Debtors own a 12.5% interest in CH
17 (Loomis), which is a limited partnership. The Reynen Debtors also own a
18 12.5% interest in this partnership. The approximate value of this interest is
19 estimated to be \$65,000. The Plan Agent will be responsible for the sale or
20 other disposition of the Bardis Estate's interest in this property for the benefit
21 of the Bardis Estate.
- 22 ○ Townsquare Associates Interest – The Bardis Debtors own a 50% interest in
23 Townsquare Associates, which is a limited partnership. The Reynen Debtors
24 also own a 50% interest in this partnership. The approximate value of this
25 interest is \$138,000. The Plan Agent will be responsible for the sale or other
26 disposition of the Bardis Estate's interest in this property for the benefit of the
27 Bardis Estate.

- Private Club Memberships – The Bardis Debtors also own two private club memberships: a Monterey Peninsula Club membership, which is valued at \$112,500, and a Del Paso Country Club membership, which is valued at \$25,000. The Del Paso Country Club imposes strict requirements for transferring memberships that would likely render that particular membership valueless in liquidation. Under the Plan, the Bardis Debtors will retain the memberships as Excluded Assets.

2. Liabilities:

- Bardis Administrative Claims. The Bardis Debtors estimate that allowed and unpaid administrative expenses to be incurred through the period prior to the confirmation of the Plan will total approximately \$550,000 in the aggregate, including professional fees earned by the Bardis Debtors' counsel and allocated portions of fees earned by the Reynen Debtors' counsel and the Committee's counsel and the Committee's financial advisors.
- Bardis Secured Claims. Secured claims consist of those described in relation to the Estate assets identified above.
- Bardis Priority Claims. The Bardis Debtors expect approximately \$1,450,000 in priority claims to be Allowed Claims that will be paid in full.
- Bardis Unsecured Claims. General unsecured claims held against the Bardis Estate include substantial contingent obligations arising from guarantees of the SPEs' debts, and their quantification depends largely on the outcome of the SPEs' projects and their lenders' recoveries. The Bardis Debtors estimate that allowable general unsecured claims under the Plan, within Class D1, will be in an approximate range between \$613,021,000 and \$879,786,000. In the event of liquidation under chapter 7, however, the Bardis Debtors believe that the aggregate amount of such claims is more likely to be in an approximate range between \$662,394,000 and \$907,973,000. It is noted, however, that those amounts are estimates only, and the actual outcome of claims may vary widely from those estimates.

1 **VI. CONFIRMATION AND CONSUMMATION PROCEDURE**

2 **A. Solicitation of Votes**

3 In accordance with the provisions of Sections 1126 and 1129 of the Bankruptcy Code, the
4 Claims in Classes B1.2, B1.3, B1.4, B1.5, B1.6, B1.7, B1.8, B1.9, B1.10, B1.11, B2.5, B2.6, B2.7,
5 C1, C2, D1 and D2 are impaired and the holders of Claims in such Classes are entitled to vote to
6 accept or reject the Plan. The holders of Allowed Claims in Classes A1, A2, B1.1, B1.12, B2.1,
7 B2.2, B2.3, B2.4, B2.8 and B2.9 are unimpaired, and are conclusively presumed to have accepted the
8 Plan and therefore are not entitled to vote, under Section 1126(f) of the Bankruptcy Code.

9 As to those classes of Claims entitled to vote to accept or reject the Plan, the Bankruptcy
10 Code defines acceptance of a plan by a class of creditors as acceptance by holders of at least two-
11 thirds in dollar amount, and one-half in number, of the claims of that class that have timely voted to
12 accept or reject a plan. A vote may be disregarded if the Bankruptcy Court determines, after notice
13 and a hearing, that such acceptance or rejection was not solicited or procured in good faith or in
14 accordance with the provisions of the Bankruptcy Code.

15 Any creditor of an impaired Class (i) whose Claim has been listed by the Debtor Group in
16 their schedules filed with the Bankruptcy Court (provided that such Claim has not been scheduled as
17 disputed, contingent or unliquidated) or (ii) who filed a proof of claim within any applicable period of
18 limitations, or with leave of the Bankruptcy Court, which Claim is not the subject of an objection, is
19 entitled to vote to accept or reject the Plan.

20 **B. The Confirmation Hearing**

21 Section 1128(a) of the Bankruptcy Code requires the Bankruptcy Court, after notice, to hold a
22 hearing on confirmation of the Plan. The Confirmation Hearing with respect to the Plan will be
23 conducted before the Honorable Christopher M. Klein, United States Bankruptcy Judge at the United
24 States Bankruptcy Court for the Eastern District of California, Sacramento Division, 6th Floor,
25 Courtroom 35, Sacramento, California, on a date and time set forth in documents accompanying this
26 Disclosure Statement. The Confirmation Hearing may be continued from time to time by the
27 Bankruptcy Court without further notice except for an announcement of the continued date made at
28 the Confirmation Hearing.

Section 1128(b) provides that any party in interest may object to confirmation of a plan. Any objection to confirmation must be made in writing and filed with the Bankruptcy Court and served upon those parties identified for such service in other documents accompanying this Disclosure Statement. Objections to confirmation of the Plan are governed by Bankruptcy Rules 3017 and 9014. **UNLESS AN OBJECTION TO CONFIRMATION IS TIMELY SERVED AND FILED, THE BANKRUPTCY COURT MAY NOT CONSIDER IT.**

C. Confirmation

At the Confirmation Hearing, the Bankruptcy Court will confirm the Plan only if all of the requirements of Section 1129 of the Bankruptcy Code are met. In order to be confirmed, the Plan must meet all confirmation requirements from the perspective of each Estate, as if set forth in separate reorganization plans in each of the Chapter 11 Cases. Among the requirements for confirmation of a plan are that the plan is (i) accepted by all impaired classes of claims or, if rejected by an impaired class, that the plan “does not discriminate unfairly” and is “fair and equitable” as to such class, (ii) feasible, and (iii) in the “best interests” of creditors which are impaired under the plan.

1. Acceptance:

As stated, Claims within Classes B1.2, B1.3, B1.4, B1.5, B1.6, B1.7, B1.8, B1.9, B1.10, B1.11, B2.5, B2.6, B2.7, C1, C2, D1 and D2 of the Plan are impaired under the Plan and are entitled to vote to accept or reject the Plan. The Debtor Group reserves the right to seek nonconsensual confirmation of the Plan under Section 1129(b) of the Bankruptcy Code with respect to any Class of Claims that rejects or is deemed to reject the Plan.

2. Unfair Discrimination and Fair and Equitable Tests

To obtain nonconsensual confirmation of the Plan, it must be demonstrated to the Bankruptcy Court that the Plan “does not discriminate unfairly” and is “fair and equitable” with respect to each impaired, non-accepting Class. The Bankruptcy Code provides a non-exclusive definition of the phrase “fair and equitable.” The Bankruptcy Code establishes “cram down” tests for secured creditors, unsecured creditors, and equity holders, as follows:

- a. Secured Creditors.** Either (i) each impaired secured creditor retains its liens securing its secured claim and receives on account of its secured claim deferred cash

1 payments having a present value equal to the amount of its allowed secured claim, (ii) each
2 impaired secured creditor realizes the “indubitable equivalent” of its allowed secured claim,
3 or (iii) the property securing the claim is sold free and clear of liens with such liens to attach
4 to the proceeds of the sale and the treatment of such liens on proceeds is provided in clause (i)
5 or (ii) of this subparagraph.

6 **b. Unsecured Creditors.** Either (i) each impaired unsecured creditor receives or
7 retains under the plan property of value equal to the amount of its allowed claim or (ii) the
8 holders of claims that are junior to the claims of the dissenting class will not receive or retain
9 any property under the plan.

10 **c. Interests.** Either (i) each holder of an interest in the Estates will receive or
11 retain under the plan property of a value equal to the greatest of the fixed liquidation
12 preference to which such holder is entitled, the fixed redemption price to which such holder is
13 entitled or the value of the interest, or (ii) the holder of an interest that is junior to the non-
14 accepting class will not receive or retain any property under the plan.

15 The Debtor Group believes that the Plan and the treatment of all Classes of Claims under the
16 Plan satisfy the foregoing requirements for nonconsensual confirmation of the Plan.

17 **3. Feasibility**

18 The Bankruptcy Code requires that confirmation of a plan is not likely to be followed by
19 liquidation or the need for further financial reorganization. Because the Plan provides for an orderly
20 liquidation of Estate assets, the Debtor Group submits that there is no material issue as to feasibility.

21 **4. Best Interests of Creditors**

22 With respect to each impaired Class of Claims, confirmation of the Plan requires that each
23 holder of a Claim either (i) accept the Plan or (ii) receive or retain under the Plan property of a value,
24 as of the Effective Date, that is not less than the amount such holder would receive or retain if the
25 debtors’ assets were liquidated under chapter 7 of the Bankruptcy Code. To determine what holders
26 of Claims of each impaired Class would receive if the debtors’ assets were liquidated under chapter 7,
27 the Bankruptcy Court must determine the dollar amount that would be generated from that liquidation
28 in the context of a chapter 7 liquidation case. The cash amount which would be available for

1 satisfaction of unsecured claims would consist of the proceeds resulting from the disposition of the
2 unencumbered assets of the estate, augmented by the unencumbered cash held by the chapter 7
3 trustee at the time of the commencement of the liquidation case. Such cash amount would be reduced
4 by the amount of the costs and expenses of the liquidation and by such additional administrative and
5 priority claims that may result from the use of chapter 7 for the purposes of liquidation.

6 In Reynen Case and the Bardis Case, the Debtor Group believes that the Plan is likely to
7 produce a greater and prompter recovery for general unsecured creditors than chapter 7 liquidations
8 of the two Estates. Attached hereto as **Exhibits “C” and “D”** is the Debtor Group’s analysis of the
9 probable outcomes of distributions under the Plan and, in the alternative, chapter 7 liquidations in the
10 two cases. As can be seen from a review of that analysis, it is the Debtor Group’s belief that general
11 unsecured creditors would receive distributions of between approximately 0.9% and 2.3% in the
12 Reynen Case in a chapter 7 liquidation, and that general unsecured creditors would receive
13 distributions of between approximately 0.9% and 2.2% in the Bardis Case in a chapter 7 liquidation.
14 This is contrasted with roughly ranges of 2.8% - 6.1% and 2.2% - 5.2%, respectively, expected in
15 distributions to general unsecured creditors under the terms of the Plan. By those estimations,
16 recoveries will be greater under the Plan and the best interests test is satisfied.

17 The principle reason for the difference in outcomes in chapter 7 and under the Plan is the level
18 of cooperation and assistance to which the Reynen Debtors and the Bardis Debtors have committed
19 under the Plan, which assistance efforts would not be required of them in chapter 7 liquidations.
20 Those assistance efforts are expected to benefit the Estates under the Plan in several respects,
21 including the following:

22 First and foremost, the Debtor Group has agreed to actively prosecute the tax returns recently
23 filed by them on behalf of the Estates, and to defend the substantial refunds recently obtained
24 thereby. The returns, and hence the resulting refunds, are complex and depend upon exhaustive
25 analyses, valuations and estimations of the assets and operations of more than one hundred SPEs, for
26 which the Debtor Group and its Buildco staff has intimate familiarity, and without the Debtor
27 Group’s active assistance, it is believed that the outcome of those returns and refunds might be
28 substantially less favorable to the Estates. Therefore, recoveries by unsecured creditors under the

1 Plan are expected to be significantly enhanced by the Debtor Group's assistance in obtaining and
2 retaining the expected tax refunds. Most importantly, the Tax Refund is almost entirely dependent on
3 the Debtor Group's defense and the continued efforts by Buildco. If the Estates are liquidated in
4 chapter 7 cases at this point, whereas the Debtor Group would fulfill their statutory duties in
5 cooperating in the chapter 7 trustee's defense of the tax refunds in response to a challenge by the
6 Internal Revenue Service, it is not anticipated that the level of support by the Debtor Group,
7 uncompensated and necessarily secondary to new, income-producing ventures of the Debtor Group,
8 would be as helpful. Moreover, with the dissolution of Buildco, Inc. and the loss of its staff and its
9 great familiarity with the tax returns, the chapter 7 trustee's challenges in defending the tax refunds
10 would be dramatically increased. In that event, for lack of the same support for its defense, the
11 Reynen Tax Refund might be dramatically reduced by challenges by the IRS, possibly to the lesser
12 amount of \$6.9 million, and that the Bardis Tax Refund might also be dramatically reduced, possibly
13 to the lesser amount of \$10.5 million. On the other hand, the Debtor Group believes that under the
14 Plan, with the Reorganized Debtors' active defense of the refunds, the final sustainable amounts of
15 refunds will be much greater, up to the presently held amounts of \$25.9 million and \$34.7 million,
16 respectively, as it is the Debtor Group's belief that those refund amounts are defensible and
17 appropriate.

18 Second, the continued, limited operations of Buildco under the terms of the Plan are expected
19 to substantially reduce the potential claims against the Estates by completing construction of selected
20 projects, maximizing recoveries of the SPEs' lenders through those build-outs, and thereby
21 decreasing the potential deficiencies, and hence claims against the Estates under personal guarantees,
22 realized by those lenders. These reductions in claims are expected to arise from both completion of
23 construction projects and the Debtor Group's assistance in reviewing and resolving claims that are
24 disputed or that arise from guaranteed deficiencies.

25 Third, the Debtor Group has agreed to provide substantial assistance to the Plan Agent in the
26 marketing and sale of the Estates' assets, consisting primarily of parcels of real property. Here too,
27 the Debtor Group is most familiar with those properties and their sales features, and it is anticipated
28 that the Debtor Group's input and assistance to the Plan Agent will result in prompter and better

1 recoveries for general unsecured creditors. In a liquidation, the Debtor Group believes that its assets
2 would be sold for less, and because most of the Debtor Groups' assets are encumbered by liens, sales
3 of collateral at distressed prices would likely leave little surplus after secured debt, and therefore, less
4 funds would be available to distribute to holders of general unsecured claims.

5 The Debtor Group's assistance to the Plan Agent will be compensated in various manners as
6 described above. It is the Debtor Group's belief that even after taking into account those forms of
7 compensation, the Estates will be materially benefited from the Debtor Group's promised efforts,
8 resulting in a better outcome under the Plan than in chapter 7 liquidations. This is the conclusion
9 reached by the Creditors' Committee as well, after having negotiated exhaustively with the Debtor
10 Group with respect to the particulars of promised assistance and the levels and calculations of
11 compensation.

12 For these reasons, the Debtor Group believes that the Plan will produce a better and quicker
13 recovery for creditors than chapter 7 liquidations, and that the "best interests" test described above is
14 therefore satisfied by the terms of the Plan.

15 **D. Consummation**

16 The Plan will be consummated following the Effective Date, which will be a date shortly
17 following entry of the Confirmation Order, absent a stay of implementation.

18 **E. Effect of Confirmation of the Plan**

19 Confirmation and effectuation of the Plan will bind the Debtor Group, all creditors and all
20 other parties in interest to the provisions of the confirmed Plan, whether or not the claim of such
21 creditor is impaired under the Plan and whether or not such creditor has accepted the Plan. Nothing
22 contained in the Plan will limit the effect of Confirmation as described in Section 1141 of the
23 Bankruptcy Code.

24 **VII. CERTAIN RISK FACTORS TO BE CONSIDERED**

25 **HOLDERS OF CLAIMS AGAINST THE REYNEN DEBTORS OR THE BARDIS**
26 **DEBTORS SHOULD READ AND CONSIDER CAREFULLY THE FACTORS SET FORTH**
27 **BELOW, AS WELL AS THE OTHER INFORMATION SET FORTH IN THIS**
28 **DISCLOSURE STATEMENT (AND THE DOCUMENTS DELIVERED TOGETHER**

1 **HEREWITH AND/OR INCORPORATED BY REFERENCE HEREIN), PRIOR TO VOTING**
2 **TO ACCEPT OR REJECT THE PLAN. THESE RISK FACTORS SHOULD NOT,**
3 **HOWEVER, BE REGARDED AS CONSTITUTING THE ONLY RISKS INVOLVED IN**
4 **CONNECTION WITH THE PLAN AND ITS IMPLEMENTATION.**

5 **A. Certain Bankruptcy Law Considerations**

6 **1. Risk of Non-Confirmation of the Plan**

7 Although the Debtor Group believes that the Plan will satisfy all requirements necessary for
8 confirmation by the Bankruptcy Court, there can be no assurance that the Bankruptcy Court will
9 reach the same conclusion. Moreover, there can be no assurance that modifications to the Plan will
10 not be required for confirmation, or that such modifications would not necessitate the resolicitation of
11 votes.

12 **2. Non-Consensual Confirmation**

13 In the event one or more impaired Classes of Claims does not accept the Plan, the Bankruptcy
14 Court may nevertheless confirm the Plan at the Debtor Group's request, if all other conditions for
15 confirmation have been met and at least one impaired Class has accepted the Plan (such acceptance
16 being determined without including the vote of any "insider" in such Class) and, as to each impaired
17 Class that has not accepted the Plan, if the Bankruptcy Court determines that the Plan "does not
18 discriminate unfairly" and is "fair and equitable" with respect to the rejecting impaired classes. The
19 Debtors believe that the Plan satisfies those requirements.

20 **3. Tax Attributes of the Plan**

21 Neither the Debtor Group nor the Creditors' Committee will seek a ruling from the Internal
22 Revenue Service prior to the Effective Date with respect to any of the tax aspects of the Plan. EACH
23 HOLDER OF A CLAIM IS STRONGLY URGED TO CONSULT WITH HIS TAX ADVISOR
24 REGARDING THE FEDERAL, STATE, LOCAL AND FOREIGN TAX CONSEQUENCES OF
25 THE PLAN.

26 **B. Certain Practical Considerations**

27 **1. Failure to Retain Tax Refunds**

1 Although the Debtor Group has recently received the substantial tax refunds described above,
2 there is no assurance that significant portions thereof may not be reclaimed by the Internal Revenue
3 Service. The Debtor Group has not yet received any formal reaction from any taxing authorities
4 regarding the refunds, and therefore cannot predict the likelihood of disputes and litigation regarding
5 the refunds. If the refunds are significantly reduced, recoveries by general unsecured creditors will
6 be adversely affected.

7 **2. Failure of R&B's Operations**

8 There is a risk that the operations of Buildco will fail, or will not produce the results
9 anticipated in terms of construction completion and reductions of deficiency claims, either because of
10 lack or insufficiency of funding, failure of agreements with the SPEs' lenders or other contingent
11 events. In that event, which the Debtor Group does not expect, claims against the Estates will be
12 increased and recoveries by general unsecured creditors, on a percentage basis, will be reduced.
13 There is, of course, the risk that the Debtors' buildout operations will not succeed in achieving the
14 results expected. In that event, which the Debtors consider unlikely, the Debtor Group will continue
15 to try to minimize deficiency claims. The Debtor Group will further continue to negotiate with their
16 prepetition lenders to reduce claims owed by each Estate. However, there is no guarantee that after
17 the projects are built out the deficiency claims will be reduced to the extent anticipated by the Debtor
18 Group.

19 **3. Estimated Amounts**

20 The valuations provided on the Debtor Group's schedules were based on the estimates of the
21 Debtor Group, as well as the staff at R&B, based on their extensive knowledge of the real estate
22 market. Those estimates are a reflection of the Debtors' best subjective valuation at the time. It
23 should be noted that the bulk of the Debtors' real property assets are located in Sacramento and the
24 Sacramento area. In October 2008, the median sales price in the Sacramento area fell below
25 \$200,000 for the first time since April 2002. Some experts expect the values to continue to decline,
26 while at the same time increasing the number of homes sold. With this wide-ranging volatility, it is
27 difficult to predict what the values will be at the time of the sale of Estate assets. Furthermore, the
28 liquidation value of real property is generally below fair market value, further compounding the

1 ability to accurately determine the value of the Debtors' real property assets.

2 In light of the volatile real estate market, declining home values and the discounted value for a
3 liquidation sale, all creditors and parties in interest should be aware that the amounts received for the
4 sale of the Debtors' real property assets could significantly vary the values listed on the Debtors'
5 schedules and the estimates provided in the Plan and this Disclosure Statement.

6 **4. Contested Claims**

7 If the Plan Agent and the Reorganized Debtors are unsuccessful in their objections to
8 contested and contingent Claims that have been filed against the Estates, the total liabilities will be
9 greater than expected. The Plan Agent and the Reorganized Debtors intend to vigorously oppose the
10 allowance of all Claims that they believe are either entirely or in part without merit. However, if the
11 Plan Agent's or the Reorganized Debtors' objections are not upheld by the Bankruptcy Court, and
12 these Claims are allowed in amounts in excess of the amounts that have been accrued by the Debtor
13 Group, the total liabilities of the Estates will be greater than expected, and there will be less cash than
14 expected available for distribution to creditors.

15 **5. Liquidation Analysis**

16 The Debtor Group has prepared hypothetical chapter 7 liquidation analyses attached as the
17 second halves of **Exhibits "C" and "D"** to assist Claimants holding impaired claims to reach their
18 determination as to whether to accept or reject the Plan. Underlying the liquidation analyses are a
19 number of estimates and assumptions that, although developed and considered reasonable by the
20 Debtor Group and the management of Buildco, are inherently subject to economic uncertainties and
21 contingencies beyond the control and knowledge of the Debtor Group. It is noted that the Creditors'
22 Committee's financial advisor assisted the Debtor Group in the preparation of **Exhibits "C" and**
23 **"D,"** particularly as to methodology and format, but that the assumptions and estimated amounts
24 contained in those analyses are solely those of the Debtor Group and Buildco, Inc.

25 Accordingly, there can be no assurance that the values assumed in the liquidation analyses
26 would be realized if the Estates were liquidated under chapter 7. In addition, any liquidation that
27 would be undertaken would necessarily take place in future circumstances which cannot currently be
28 predicted. Therefore, while the liquidation analyses are necessarily presented with numerical

specificity, if the Estates were liquidated under chapter 7, the actual liquidation proceeds could vary, perhaps substantially, from the amounts set forth in **Exhibits “C” and “D.”** No representation or warranty can be or is being made with respect to the actual proceeds that could be received in a chapter 7 liquidation. Nothing contained in the liquidation analyses is intended or may constitute a concession or admission of the Debtor Group for any other purpose.

VIII. CONCLUSION AND RECOMMENDATION

Based upon the foregoing, the Debtor Group, with the support of the Creditors’ Committee, believes that confirmation and implementation of the Plan is in the best interests of all creditors, and should therefore be accepted by all classes of creditors.

DATED: May 29, 2009

/s/ John D. Reynen
JOHN D. REYNEN, Debtor

/s/ Christo Bardis
CHRISTO BARDIS, Debtor

/s/ Judith M. Reynen
JUDITH M. REYNEN, Debtor

/s/ Sara Bardis
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